A Report
to the
Montana
Legislature

Financial Audit

The University of Montana

For the Two Fiscal Years Ended June 30, 2012

December 2012

Legislative Audit
Division

11-10B

Financial Audits

Financial audits are conducted by the Legislative Audit Division to determine whether the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on The University of Montana's (university) consolidated financial statements for the two fiscal years ended June 30, 2012. The statements include comparative information for the fiscal year ended June 30, 2011. The statements include component unit financial information. This report does not contain any recommendations to the university.

We thank President Engstrom and university staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Appointed and Administrative Officials

		Term Expires
Board of Regents of Higher Education	Angela McLean, Chair	February 1, 2017
	Major Robinson, Vice Chair	February 1, 2018
	Todd Buchanan	February 1, 2014
	Jeffrey Krauss	February 1, 2015
	Paul Tuss	February 1, 2013
	Pat Williams	February 1, 2019
	Joseph Thiel, Student Regent	June 30, 2013
	Denise Juneau, Superintendent of Public Instruction*	
	Brian Schweitzer, Governor*	
	Clayton Christian, Commissioner of Higher Education*	
	*Ex officio members	

Office of the Commissioner of Higher Education	Clayton Christian, Commissioner of Higher Education
	Mick Robinson, Deputy Commissioner for Fiscal Affairs, Chief of Staff
	Neil Moisey, Interim Deputy Commissioner for Academic, Research, and Student Affairs
	John Cech, Deputy Commissioner for Two-Year and Community College Education
	Tyler Trevor, Associate Commissioner for Planning and Analysis
	Frieda Houser, Director of Accounting and Budgeting
	Catherine Swift, Chief Legal Counsel
The University of Montana	Royce C. Engstrom, President
The University of Montana-Missoula	Perry J. Brown, Provost and Vice President for Academic Affairs, University Provost
	Robert Duringer, Vice President for Administration and Finance, University Vice President
	David Forbes, Interim Vice President for Research and Development, University Vice President

Teresa S. Branch, Vice President for Student Affairs, University Vice President

David Aronofsky, Legal Counsel

John McCormick, Acting Director of Business Services

Montana Tech of The University of Montana

Donald M. Blackketter, Chancellor

Doug Abbott, Vice Chancellor for Academic Affairs, University Associate Vice President

Joseph F. Figueira, Associate Vice Chancellor for Academic Affairs and Research, University Associate Vice President

Margaret Peterson, Vice Chancellor for Administration and Finance, University Associate Vice President

Mike Johnson, Vice Chancellor for Development and Student Services

John C. Badovinac, Controller/Business Manager, Post-Retirement

Carleen Cassidy, Director, Contracts and Grants

The University of Montana-Western

Richard Storey, Chancellor, University Executive Vice President

Karl E. Ulrich, Provost and Vice Chancellor for Academic Affairs, University Associate Vice President

Susan D. Briggs, Vice Chancellor, Administration/Finance and Student Affairs, University Associate Vice President

Liane Forrestor, Director of Business Services

The University of Montana-Helena College

Daniel Bingham, Dean/Chief Executive Officer, University Executive Vice President

Vacant, Associate Dean for Academic Affairs

Elizabeth Stearns-Sims, Assistant Dean for Student Services

Russ Fillner, Assistant Dean for Fiscal and Plant Operations

Valerie Lambert, Director of Financial Aid

For additional information concerning The University of Montana (all campuses), contact:

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Montana Legislative Audit Division

Financial Audit
The University of Montana
For the Two Fiscal Years Ended June 30, 2012

December 2012 11-10B Report Summary

The University of Montana (university) is comprised of The University of Montana – Missoula, Montana Tech of The University of Montana, The University of Montana – Western, and Helena College. Enrollment of full-time equivalent students decreased from 19,043 in fiscal year 2011 to 18,709 in fiscal year 2012, resulting in a decrease in tuition and fees revenue.

Context

The annual financial statement audit of the university is performed to supply relevant and timely audited financial statements to interested parties. Financial audits determine whether the university's financial statements are fairly presented.

The financial statements in this report also contain information regarding the university's component units. These component units had net assets of $211 million at June 30, 2012.

During June 2012, the university issued, with Board of Regents approval, approximately $39.4 million of taxable and tax-exempt revenue bonds. The proceeds were used to buy back previously issued bonds.

Federal financial aid grants and contracts increased slightly between fiscal years 2012 and 2011. Federal financial aid is considered nonoperating revenues and is classified as such on the financial statements.

Tuition and fees revenues decreased slightly between fiscal years 2012 and 2011. The number of full-time equivalent students also decreased after many years of accelerated growth.

Capital grants and gifts decreased by approximately $12.6 million between fiscal years 2012 and 2011. The decrease was due to the decline in construction projects.

Results

Report readers can rely on financial information included in our report as a basis for financial decisions. The audit report does not contain any recommendations.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

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Chapter I – Introduction

Audit and Objectives

We performed a financial audit of The University of Montana (university) for the two fiscal years ended June 30, 2012. The objective of the audit was to determine whether the university's financial statements present fairly its financial position at June 30, 2012, and 2011, and the changes in financial position and cash flows for the years then ended. This objective included:

1. Determining the university's compliance with selected applicable laws and regulations.
2. Obtaining an understanding of the university's control systems to the extent necessary to support the audit of the financial statements, and if appropriate, make recommendations for improvement in management and internal controls.

We perform annual financial audits of the university to provide timely audited financial statements to interested parties. To complete the biennial financial-compliance audit required in statute, we also issue a financial-related audit every other year that determines the university's compliance with additional selected state and federal laws and regulations for the two-year period, the most recent of which was issued in October 2011.

Background

The University of Montana consists of four campuses:

- The University of Montana-Missoula is located in Missoula. The Montana Forest and Conservation Experiment Station is associated with this campus. It includes the Missoula College.
- Montana Tech of The University of Montana is located in Butte and includes the Montana Bureau of Mines and Geology. It includes the Highlands College.
- The University of Montana-Western is located in Dillon.
- Helena College-The University of Montana is located in Helena.

During our audit period, The University of Montana changed the names of some of its campuses. The financial statements contained in this report refer to the former campus names. All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of The University of Montana provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

The University of Montana-Missoula offers four-year undergraduate programs along with masters and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools/colleges include Business Administration, Education and Human Science, Visual and Performing Arts, Forestry and Conservation, Health Professions and Biomedical Sciences, Extended and Lifelong Learning, Honors, Graduate, and Journalism. In addition, the campus includes the two-year Missoula college, which provides a broad range of technical and occupational education and training courses. Missoula College students receive either a certificate of completion or a two-year degree upon completion of a program.

Montana Tech focuses on education and research in science, engineering, health, business, and communications. The institution offers degree programs at the certificate, 2-year, 4-year, and graduate levels. The Highlands College provides occupationally-specific higher education programs in Business, Health, Information Technology, and Technical and Trades. Successful completion of a one- or two-year program leads to the award of a Certificate or an Associate of Applied Science degree.

The University of Montana-Western provides undergraduate degrees in a number of liberal arts, professional, and pre-professional areas using a unique scheduling system in which students take one class at a time.

Helena College-The University of Montana has evolved from a vocational-technical school into a growing two-year college offering 32 credentials in 14 different areas, as well as general transfer degrees and a variety of learning opportunities in personal enrichment and customized training. Through these offerings, the Helena College serves around 1,500 students each semester throughout Helena and the surrounding area.

Refer to student enrollment information on page A-52.

Independent Auditor's Report and University Financial Statements

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Statements of Net Assets of The University of Montana, a component unit of the state of Montana, as of June 30, 2012, and 2011, and the related Consolidated Statements of Revenues, Expenses, and Changes in Net Assets, and Consolidated Statements of Cash Flows for each of the fiscal years then ended, and the University Component Units - Combined Statements of Financial Position as of June 30, 2012, and 2011, and the related University Component Units - Combined Statements of Activities for the fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the university's aggregate discretely presented component units. Those statements, which include The University of Montana Foundation, the Montana Tech Foundation, The University of Montana-Western Foundation, and the Montana Grizzly Scholarship Association, were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts for the component units of the university, as noted above, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of The University of Montana as of June 30, 2012, and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Status for Other Post Retirement Benefits

for Health Insurance be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Management's Discussion and Analysis and the Schedule of Funding Status for Other Post Retirement Benefits for Health Insurance in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of The University of Montana. The Supplemental Information – All Campuses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures in the audit of the financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

November 26, 2012

THE UNIVERSITY OF MONTANA

THE UNIVERSITY OF MONTANA - MISSOULA
THE UNIVERSITY OF MONTANA - WESTERN
THE UNIVERSITY OF MONTANA - HELENA COLLEGE OF TECHNOLOGY
MONTANA TECH OF THE UNIVERSITY OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012 OVERVIEW

The University of Montana (University) is comprised of four campuses: The University of Montana - Missoula; The University of Montana - Western; The University of Montana - Helena College of Technology; and Montana Tech of The University of Montana. This discussion addresses the consolidated financial statements for the four campuses, and included are three basic statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The discussion and analysis which follows provides a comparative overview of the University's financial position and operating results for the fiscal years ended June 30, 2012, 2011, and 2010 and should be read in conjunction with the fiscal year 2012 financial statements.

FINANCIAL HIGHLIGHTS

<u>The financial highlights for fiscal year 2012 were</u>:

- In FY12, the University issued Series L 2012 Revenue Bonds in the amount of $39,415,000 to advance refund all of the $15,290,000 outstanding Series F 1999 Bonds, all of the $15,175,000 outstanding Series G 2002 Bonds and a portion of the outstanding Series I 2004 Bonds. The advance refunding will realize a debt service cash flow savings of $6,589,962, which is the difference between the debt service cash flow on the refunded bonds and the debt service cash flow on the new revenue bond issuance.

- The University continues to receive an indicative credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively.

- After increasing steadily over the past 5 years, enrollment of full time equivalent (FTE) students at the University declined by 330 students in FY12, dropping from 19,039 FTE in FY11 to 18,709 FTE in FY12. The majority of the decline in enrollment was in in-state students, which decreased by 318 FTE. The decline in tuition and fee revenue due to the drop in in-state enrollment was mitigated to a large extent, by an increase of 30 FTE in out-of-state students and increase in mandatory fees at the University's four year institutions. Overall, tuition and fee revenue dropped by less than 1%.

- The appropriation by the 2011 session of the Montana Legislature to the Montana University System (MUS) in the fiscal 2013 biennium declined by over 3.0% as a percentage of total budgeted revenues for the 2 year period. In addition, a pay plan was not passed during the 2011 legislative session nor was a pay plan passed in the 2009 Legislative session for the Fiscal 2011biennium. To address this issue, during the most recent bargaining cycle, agreements were reached between the various unions representing faculty and classified staff to increase compensation. The agreements with the various unions specified a 1% pay increase plus, $500 in FY12 and a 2% pay increase plus, $500 in FY13. Classified staff not covered by union representation, administrators, and contract professionals, were also eligible for similar increases. The pay increases are being funded by an increase in mandatory fees for resident and nonresident students.

<u>The financial highlights for fiscal year 2011 were</u>:

- The appropriation by the 2009 session of the Montana Legislature to the Montana University System for the 2010-2011 biennium included, $17.6 million in federal stimulus funding and approximately, $59 million of education stabilization funding through the American Reinvestment and Recovery Act (ARRA) of 2009. The University of Montana was allocated $13.3 million of these funds in FY11, for education stabilization and $3.5 million for tuition mitigation and to increase access to distance learning. The University was also awarded over $7.2 million of federal grants and contracts that were funded through ARRA. The University established additional accounting and monitoring processes and procedures to ensure compliance with regulations and reporting requirements established by the federal government for federal stimulus and recovery funds received.

- Investment earnings increased approximately $4.3 million in FY11 due primarily to a $3.1 million increase in the fair value of investments. The yields on interest bearing investments continue to remain very low. The weighted average yield on these investments in FY11 was 1.7% compared to 2.2% in the prior year.

- Enrollment of full time equivalent (FTE) students to the University increased by 944 students in FY11 over the FTE reported for FY10. The increase in enrollment, and a 4.5% and a 4.8% increase in tuition and mandatory fees for in-state and out of state students, respectively, helped to increase tuition and fee revenue by over $7.0 million.

- The University of Montana Foundation (UM Foundation) reported an investment return of 23.4% on its investments for FY11. While investment returns have improved substantially in FY11 and FY10, a number of the Foundation's endowments continue to remain below the original gift value.

- In FY11, the University issued Series K 2010 Revenue Bonds in the amount of $48,415,000 to advance refund all of Series E 1998 and $41,224,997 of Series F 1999. The advance refunding will realize a debt service cash flow savings of $3,669,560, which is the difference between the debt service cash flow on the refunded bonds and the debt service cash flow on the new revenue bond issuance.

USING THE FINANCIAL STATEMENTS

The University's financial statements consist of the following three statements: Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows.

A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- These are consolidated financial statements representing the University's four campuses.

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when incurred.

- Assets and liabilities presented in the financial statements are generally measured at current value, although capital assets are stated at historical cost less accumulated depreciation.

- Capital assets are classified as depreciable and non-depreciable. Depreciation is treated as an operating expense.

- Assets and liabilities are treated as current (Due within one year) or as non-current (Due in more than one year), and are presented in the Statement of Net Assets in order of liquidity.

- Revenues and expenses are classified as operating or non-operating. "Operating" is defined as resulting from transactions involving exchanges of goods or services for payment, and directly related to supplying the basic service while "non-operating" is defined as resulting from transactions not derived from the basic operation of the enterprise. As a result, the accompanying Statement of Revenues, Expenses, and Changes in Net Assets reflects a substantial operating loss, primarily because accounting standards requires that the State Appropriation, which is used for operations, must be reported as non-operating revenue.

- Tuition and fees are reported net of any scholarships or fellowships that were applied directly to a student's account. The reason for "netting" these is to keep the University financial statements from "double counting" this revenue and expense.

STATEMENT OF NET ASSETS

The Statement of Net Assets reflects the financial position of the University at the end of the fiscal year. The changes in net assets that occur over time indicate improvements or deterioration in the University's financial position. A summary of the Statement of Net Assets follows:

	For the years ended June 30, (stated in millions)		
	2012	**2011**	**2010***
Description			
Total current assets	$ 93.03	$ 99.98	$ 78.20
Total non-current assets	434.39	418.20	414.41
Total assets	$ 527.42	$ 518.18	$ 492.61
Total current liabilities	$ 55.80	$ 58.88	$ 58.94
Total non-current liabilities	190.78	185.85	181.48
Total liabilities	$ 246.58	$ 244.73	$ 240.42
Invested in Capital Assets, Net of Related Debt	$ 223.81	$ 226.56	$ 211.11
Restricted:			
Nonexpendable	19.81	20.67	17.93
Expendable	6.07	5.69	6.16
Unrestricted	31.15	20.53	16.99
Total net assets	$ 280.84	$ 273.45	$ 252.19
Total liabilities and net assets	$ 527.42	$ 518.18	$ 492.61

***Restated**

Events or developments that occurred, which had a significant impact on the Statement of Net Assets included**:**

Events or developments which occurred during 2012

- Current assets decreased by close to $7.0 million, due largely to a net decrease in cash and cash equivalents of $11.5 million. Increases in cash and cash equivalents from operations and other sources were offset by the purchase of approximately $20.0 million of long term investment, acquired in part from available cash reserves, and the disbursement of almost $8.0 million near year end to fund monthly, biweekly and student payrolls. In FY11, disbursements to fund year end payrolls did not occur until the first month of FY12. The large decrease in cash and cash equivalents was offset in part, by a $3.9 million increase in securities lending collateral and other less significant changes in other current assets.

- Noncurrent assets increased by $16.2 million largely from the net increase to long term investments of close to $18.0 million. During the year, the University purchased $5.0 million of intermediate term investments and $15.0 million of additional Trust Fund Investment Pool (TFIP) shares, primarily with proceeds from matured securities and available cash reserves. The increase in long term investments was offset by a $500 thousand decline in fair market value of investments at fiscal year end.

- The decrease in current liabilities of $3.1 million can be attributed largely to funding monthly, biweekly and student payrolls of approximately $8.0 million prior to year end, reducing the outstanding accounts payable and accrued liabilities at the end of FY12. The decrease in current liabilities was partially offset by a $3.9 million increase in the securities lending liability. Other less significant changes to other current liability classifications, affected the net decrease in current liabilities.

- Non-current liabilities increased over $4.9 million due largely to an increase in the liability for other post employment benefits (OPEB) of $6.6 million, which is the annual amortization amount of the unfunded actuarially accrued liability for benefits calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and an increase in long-term borrowing from the primary government of $4.7 million. The increases of $11.3 million in non-current liabilities described above, was offset by a $6.6 million decline in revenue bonds payable during FY12.

- Net Assets increased by almost $7.5 million though, $13.5 million less than the $21.0 million increase in FY11. Significant items positively affecting net assets include, an increase in private gifts of $2.7 million; an increase in state appropriation of $1.7 million; a $2.7 million decline in OPEB expense and a modest increase in other operating expenses of around 1%.

Events or developments which occurred during 2011

- Current assets increased by $21.8 million due largely to a net increase in cash and cash equivalents of $23.7 million. The increase in cash and cash equivalents resulted largely from the sale of intermediate term investments ($9.0 million); the early disbursement of direct student loans for summer session ($3.8 million); an increase in cash from FY11 operations; transfers to Board of Regents approved reserve funds ($3.3 million); excess debt service transfers made as part of the University's debt management plan ($1.0 million). The increase in cash and cash equivalents was offset by less significant changes in other current assets.

- The increase in non-current assets of $3.8 million is primarily due to a net increase in capital assets of $9.9 million and a $3.1 million increase in the fair value of long term investments. These increases in non-current assets were offset by the sales and maturities of intermediate term investments, the proceeds of which were not reinvested in long term investments.

- Non-current liabilities increased by $4.4 million dollars due largely to an increase in the liability for other post employment benefits (OPEB) of $9.3 million, which is the annual amortization amount of the unfunded actuarially accrued liability for benefits calculated in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The increase in the OPEB liability was offset by a net decline in long-term debt of $5.5 million. Proceeds from new borrowings amounted to $3.5 million from advances from primary government and less than $500,000 from net borrowings on the issuance of revenue and other bonds.

- Net assets of the University increased by over $21.0 million. Significant items affecting the change in net assets include: an increase of $15.4 Million in investment in capital assets, net of related debt, largely from capital projects that were funded from the state's Long Range Building Program or from private sources; an increase in restricted non-expendable net assets due to a $2.9 million increase in fair market value of non-expendable endowments; and, a $3.5 million increase in unrestricted net assets primarily due to an increase in investment earnings over FY10 of $4.3 million. The prior year investment earnings included a $3.3 million realized loss from the termination of an interest rate swap.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets present the results of the University's operational activities for the fiscal year, categorizing them as either operating or non-operating items. Consistent with the accrual method of accounting, the current year's revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

A summary of the Statement of Revenues, Expenses and Changes in Net Assets follows:

	For the years ended June 30, (stated in millions)		
	2012	**2011**	**2010***
Description			
Operating revenues	$ 264.36	$ 267.63	$ 258.94
Operating expenses	391.03	389.80	374.53
Operating loss	(126.67)	(122.17)	(115.59)
Non-operating revenues (expenses)	129.17	127.47	116.74
Income before other revenues	2.50	5.30	1.15
Other revenues	4.89	15.96	19.97
Net increase in net assets	7.39	21.26	21.12
Net assets, beginning of year, as adjusted	273.45	252.19	231.07
Net assets, end of year	$ 280.84	$ 273.45	$ 252.19

***Restated**

The following provides a comparative analysis of revenues and expenses for the years ended June 30, 2012, 2011, and 2010:

	For the years ended June 30, (stated in millions)					
	2012		**2011**		**2010***	
REVENUES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Tuition and fees, net	$ 124.29	30.72%	$ 124.58	29.71%	$ 117.54	29.18%
Federal grants and contracts	52.31	12.94%	55.91	13.34%	56.12	13.93%
State & local grants/contracts	10.04	2.48%	11.04	2.63%	10.70	2.66%
Nongovernmental grants/contracts	6.75	1.67%	5.96	1.42%	8.17	2.03%
Facilities and administrative cost allowances	9.04	2.23%	9.58	2.28%	9.83	2.44%
Sales/services of educational departments	16.93	4.18%	15.84	3.78%	14.98	3.72%
Auxiliary enterprise charges	39.55	9.78%	39.01	9.30%	36.57	9.08%
State appropriations	84.22	20.82%	82.53	19.68%	83.11	20.63%
Federal financial aid grants and contracts	34.43	8.51%	33.92	8.09%	27.25	6.77%
Investment income	1.57	0.39%	5.22	1.25%	0.90	0.22%
Private gifts	13.33	3.29%	10.65	2.54%	11.33	2.81%
Capital grants and gifts	5.03	1.24%	17.72	4.23%	19.76	4.91%
All other sources combined	7.07	1.75%	7.35	1.75%	6.51	1.62%
Total revenues	$ 404.56	100.00%	$ 419.31	100.00%	$ 402.77	100.00%
EXPENSES	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Compensation and benefits	$ 241.56	60.82%	$ 239.30	60.12%	$ 234.77	61.51%
Other postemployment benefits	6.61	1.66%	9.31	2.34%	8.93	2.34%
Other operating expenses	90.94	22.90%	89.07	22.38%	84.54	22.15%
Scholarships and fellowships	29.55	7.44%	30.10	7.56%	25.72	6.74%
Depreciation and amortization	22.37	5.63%	22.02	5.53%	20.57	5.39%
Interest expense	6.14	1.55%	6.50	1.63%	7.12	1.87%
Other	-	0.00%	1.75	0.44%	-	0.00%
Total expenses	$ 397.17	100.00%	$ 398.05	100.00%	$ 381.65	100.00%

***Restated**

Events or developments which occurred during 2012 include:

- Overall, operating revenues declined by $3.3 million. A number of factors contributed to the decline in revenue, the primary being a 330 drop in full time equivalent (FTE) students, mainly in-state undergraduates, whose numbers had previously been growing between 2% to 5% annually over the past 5 years. The decline in revenue due to enrollment was offset, for the most part, by an increase in mandatory fees at the University's four year institutions. In addition, grant and contract revenues declined by over $4.3 million, which can be attributed to the continuing decline in available grant funding at the federal and state levels.

- Operating expenses increased modestly by $1.2 million, or less than 1%, primarily from a $2.2 million increase in compensation expense due to a 1% pay plan increase and a $1.1 million increase in other operating expenses, which was offset be a $2.7 million decrease in the annual OPEB liability amortization.

- Net non-operating revenues increased slightly by $1.7 million, or about 1.3% in FY12. The increase was due in part, to an increase in the state appropriation and private gifts of $1.7 million and $2.7 million, respectively. However, a decline in investment income of $3.6 million offset these increases.

- Capital grants and gifts declined by $12.7 million over the prior year, due largely to the completion or near completion of major capital projects undertaken over the past several years.

Events or developments which occurred during 2011 include:

- Tuition and fees increased over $7.0 million, with about 62% of the growth in revenue from higher enrollments and the remaining 38% increase in revenues from fees associated with higher tuition rates for out-of-state students.

- The $6.7 million increase in federal financial aid grants and contracts is due primarily to a loosening of eligibility requirements for obtaining Federal Pell Grants, increasing the number of students who were awarded these grants.

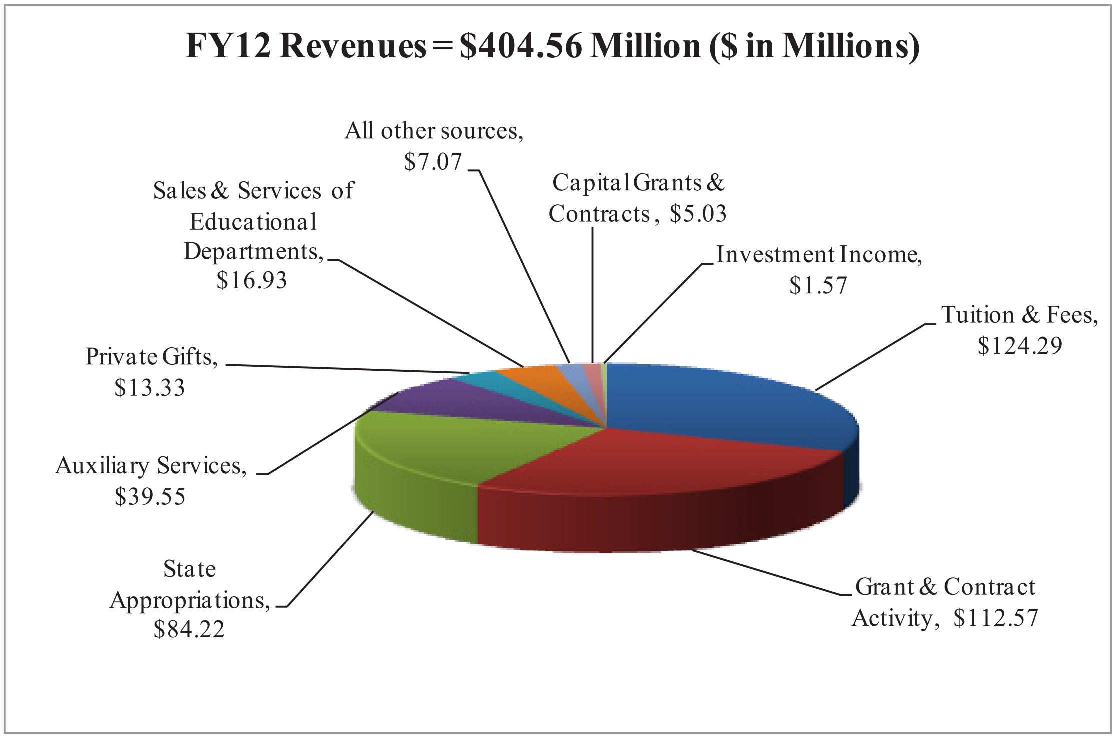
- Investment income reported for FY11 was $5.2 million, or an increase of $4.3 million over the investment earnings reported in FY10. Investment earnings for FY10 include a realized loss of $3.3 million on the termination of an interest rate swaption agreement.

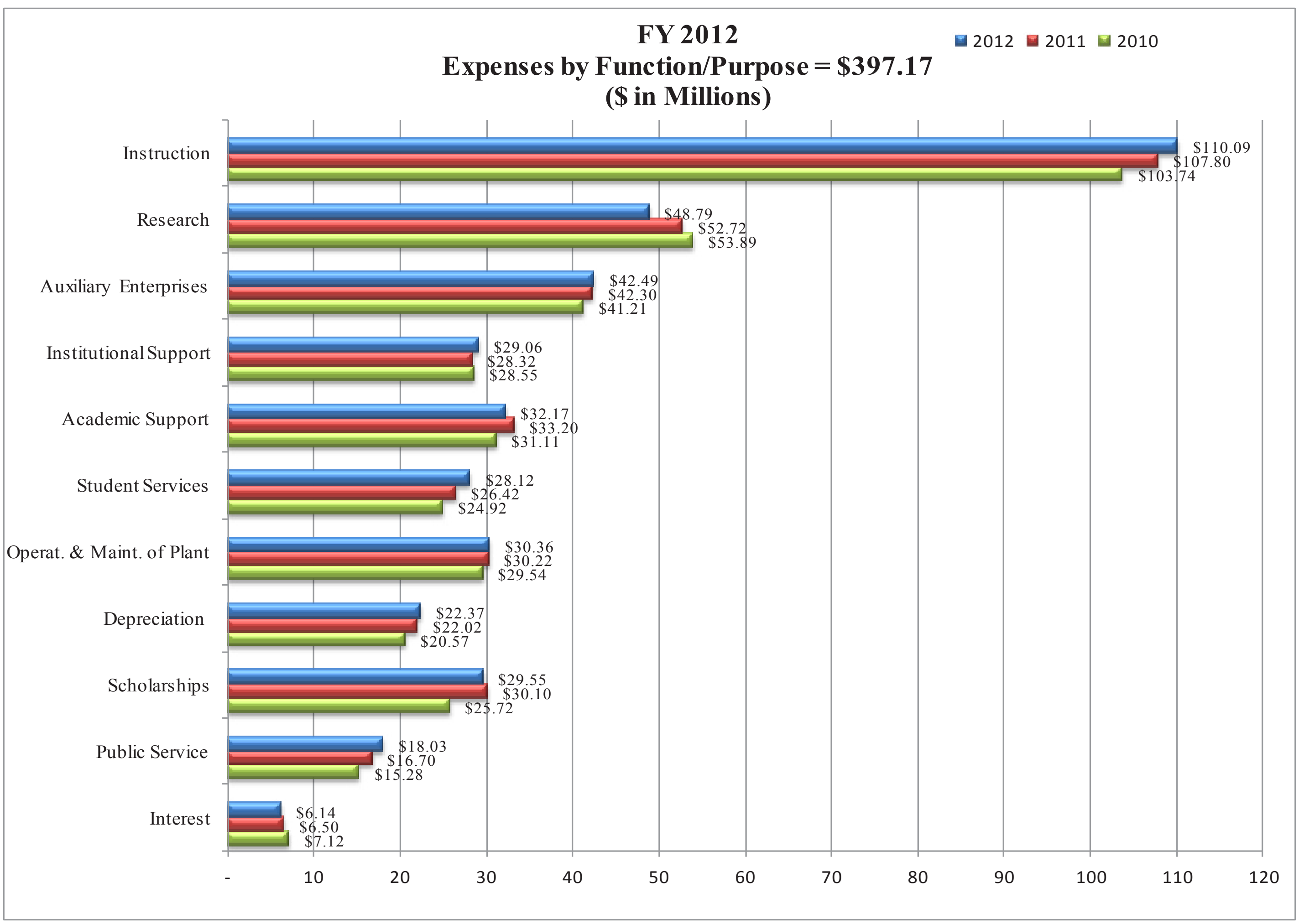
- Capital grants and gifts declined by $2.1 million over the prior year, due largely to the completion or near completion of major capital projects undertaken in the past several years.

  Capital grants and gifts amounted to $17,715,130 during the year and were as follows:

Project	Amount	Campus
Phyllis J. Washington Education Center	$ 2,008,961	Missoula
Gilkey Executive Education Building	300,697	Missoula
Native American Studies Center	584,242	Missoula
Equipment and art work gifts-in-kind	664,489	Missoula
Airport campus improvements	4,329,609	Helena
MG Building HVAC upgrade	1,801,995	Butte
Health Sciences Building	1,562,460	Butte
Main Hall Phase I & II renovation	4,942,993	Dillon
Other capital grants and gifts	1,519,684	Various
Total	$ 17,715,130	

- Operating expenses increased by over $15.3 million due primarily to increases in compensation and benefits, supplies and other services, and scholarships and fellowships, of $4.5 million, $3.8 million, and $4.4 million, respectively. The increase in compensation and benefits was due primarily to a $2.1 million increase in salaries paid for contract faculty and contract professionals and a $2.8 million increase in employer contributions for employee benefits, including health insurance. The latter represents a 9.2% increase, or $2.2 million, over FY 11. The 17% increase in scholarships and fellowships over the prior year is primarily due to an increase in enrollment and funding for financial aid.


FY12 Revenues = $404.56 Million ($ in Millions)
All other sources, $7.07
Capital Grants & Contracts, $5.03
Sales & Services of Educational Departments, $16.93
Investment Income, $1.57
Tuition & Fees, $124.29
Private Gifts, $13.33
Auxiliary Services, $39.55
State Appropriations, $84.22
Grant & Contract Activity, $112.57


FY 2012
Expenses by Function/Purpose = $397.17
($ in Millions)
2012 2011 2010
Instruction $110.09 $107.80 $103.74
Research $48.79 $52.72 $53.89
Auxiliary Enterprises $42.49 $42.30 $41.21
Institutional Support $29.06 $28.32 $28.55
Academic Support $32.17 $33.20 $31.11
Student Services $28.12 $26.42 $24.92
Operat. & Maint. of Plant $30.36 $30.22 $29.54
Depreciation $22.37 $22.02 $20.57
Scholarships $29.55 $30.10 $25.72
Public Service $18.03 $16.70 $15.28
Interest $6.14 $6.50 $7.12
- 10 20 30 40 50 60 70 80 90 100 110 120

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's sources and uses of cash during the fiscal year. This statement aids in assessing the University's ability to meet obligations and commitments as they become due, its ability to generate future cash flows, and its need for external financing. As required by GASB, the statement is presented using the "Direct Method", which focuses on those transactions that either provided or used cash during the fiscal year.

	For years ended June 30, (stated in millions)		
	2012	**2011**	**2010***
Cash Flow Category			
Cash Provided by (Used for):			
Operating Activities	$ (105.60)	$ (89.63)	$ (85.96)
Non-capital Financing Activities	133.67	127.00	123.28
Capital and Related Financial Activities	(24.29)	(24.70)	(29.39)
Investing Activities	(15.32)	11.13	(9.22)
Net Increase (Decrease) in Cash	(11.54)	23.80	(1.29)
Cash and Cash Equivalents, beginning of year	73.87	50.07	51.36
Cash and Cash Equivalents, end of year	$ 62.33	$ 73.87	$ 50.07

*Restated

Specific events or cash transactions during 2012 which were notable included:

- Net cash used in operating activities increased in FY12 by almost $16.0 million. The increase was primarily due to the following: cash received from state and federal grants and contracts declined by $7.8 million; payments to employees increased by $6.5 million due to timing differences in funding payroll between FY12 and FY11, and a 1% pay increase for employees; cash paid for operating expenses increased close to $3.7 million.

- Net cash provided by noncapital financing activities increased by $6.7 million due largely to an increase in cash provided from the state appropriation and private gifts of $1.6 million and $2.6 million, respectively.

- $15.3 million of net cash was used in investing activities during FY12. Significant transactions affecting investments include the purchase of intermediate term investments ($5.0 million) and TFIP shares ($20.0 million), cash received from investment earnings ($2.1 million) and proceeds from the maturities of intermediate term investments ($2.5 million).

- In FY12, $24.3 million of net cash was used in capital and related financing activities. During FY12, the University received proceeds of $41.0 million from the issuance of Series L 2012 revenue bonds, which were used to advance refund all, or part, of outstanding Series F 1999, Series G 2002 and Series I 2004 revenue bonds. Other significant capital and related financing activities affecting cash in FY12 include: payment of $17.0 million to acquire additional capital assets; payment of $14.0 million of principal and interest on long term obligations; and receipt of $6.0 million of cash proceeds from additional debt issuances.

Specific events or cash transactions during 2011 which were notable included:

- Cash flows from operating revenues were higher by over $8.3 million compared to the prior fiscal year, due primarily to an increase in cash flows from tuition and fees and auxiliary enterprise charges of $6.4 million and $1.1million, respectively. This increase in cash flows was offset by an almost $12.1 million increase in cash used for operating activities due principally to an increase in payments to employees for salaries and benefits of $3.0 million, an increase in cash paid for operating expenses of $4.2 million, and a $4.4 million increase in amounts paid to students for scholarships and fellowships.

- Cash flows from non-capital financing activities increased by approximately $3.7 million due largely to a $6.7 million increase in the amount received from the federal government for Pell Grants which was offset by a $1.8 million matching payment for a federal capital grant.

- Overall, cash provided by investing activities increased by over $20.3 million, due largely to the sale or maturity of $19.0 of intermediate term investments, which were not reinvested in long term securities.

- Cash used by capital and related financing activities decreased by a net amount of $4.8 million over the FY10 amount due primarily to fewer capital additions during the fiscal year, a net decline in debt issuances, and lower interest payments on long term debt. The University used $82.0 million in cash during FY11 which included; $20.0 million paid for capital construction projects and equipment purchases; $48.3 million used to advance refund revenue bond issuances; and principal and interest payments on long term obligations of $11.5 million. The amounts paid for capital and related financing activities were offset by cash received from capital gifts of $6.8 million to help fund capital additions, $48.7 million in proceeds from Series K 2010 revenue bond issuance, as well as $2.1 million of cash received from other debt issuances.

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

The issues we view as significant pending economic or financial issues for the four campuses of the University are:

- As of June 30, 2012, there were a number of major construction projects that are being planned. The following is a summary of the projects, estimated costs and their status as of June 30, 2012.

Project Name	Estimated Cost	Campus	Status
Gilkey Executive Education Building	$9.3M	Missoula	Planning
Alumni/Art & Culture Museum	TBD	Missoula	Planning
Interdisciplinary Science Building Completion	$3.8M	Missoula	Planning
Curry Health Center Renovation	$4.0M	Missoula	Planning
Food Zoo Renovation	$7.0M	Missoula	Planning
NAC Basement Finish	$2.0M	Missoula	Planning
Learning Commons – Library	$3.2M	Missoula	Planning
Athletics Academic Success Center	$2.5M	Missoula	Planning
Intercollegiate Athletics Soft Ball Facility	$2.0M	Missoula	Planning
Intercollegiate Athletics Locker and Weight Room Renovations	$4.0M	Missoula	Planning
New Residence Hall	$6.0M	MT Tech	Planning
Artificial Surface for Stadium	$1.0M	MT Tech	Planning

These projects are being funded from a variety of sources including, private donations and state funding.

- The University intends to increase the student retention rate by assuring that more of the entering freshmen have the support necessary for them to progress to graduation. In order to improve student success, a collaborative action plan for student retention is underway. The target first-to-second year retention rate for the University by 2013 is 80% and the six-year graduation rate by 2020 is 60%.

  The approach taken in this plan recognizes that student success is multifaceted and begins well before a student arrives at college. Therefore, the retention plan is organized around six issues associated with student success:
  1. Preparing K-12 student for college work;
  2. Transitioning to college;
  3. Integrating the early college curriculum;
  4. Engaging students;
  5. Strengthening student support;
  6. Emphasizing faculty and staff development: and
  7. Provide specialized attention to high risk students.

  The plan includes a discussion of each issue and includes an introduction followed by one or more specific actions, each with implementation steps. For the complete list of Actions, visit the Partnering for Student Success web site at www.umt.edu/partnering.

- FTE at the Missoula campus dropped by 739 students in Fall 2013, creating an estimated $5.2 million budget shortfall. Almost 85% of the drop in FTE can be attributed to a decline in Montana resident 1st time freshman students, which has seen a steady decline since the fall of 2008. The decline in the number of new high school graduates in Montana is projected to continue through FY 2017, before beginning a slow upward trend. The University has developed and is implementing strategies to improve access, enhance participation and increase retention of new high school graduates from Montana. To improve access and hopefully increase the participation rate of a smaller pool of prospective in-state students, the University will continue to refine such programs as Montana Partnering for Affordable College Tuition (MPACT) to minimize debt burden as a barrier to participation. To further address the low average income levels among Montanans, the University will continue to encourage more need-based assistance at the State level to help increase the overall support provided to economically disadvantaged students. The University is also implementing strategies to attract and recruit a higher number of nonresident students to offset the declining pool of available Montana high school graduates.

- The Montana University System's and the University's top priorities entering into the 2013 session of the Montana Legislature, is to increase pay and benefits for university employees and to secure funding for several building initiatives. The MUS's current low wages make it difficult to recruit new faculty and key staff to fill vacant positions, or retain faculty and staff already in place. Enrollment is challenging the University's capacity in some programs as well as its ability to maintain quality, particularly in 2 year education. The University's Missoula College of Technology in particular, has seen its student FTE grow from 886 ten years ago to 1,769 in FY12. The University is seeking $47 million to build a new facility that would relieve overcrowding and provide students a modern, quality education.

- In a time of scarce resources, the University must continue to seek creative ways to improve the efficiency and effectiveness of its operations through an on-going assessment of its business practices. The University must also identify new and enhanced revenue streams to help facilitate the accomplishment of critical goals and to assist in the delivery of a quality education to its students.

The University of Montana

A Component Unit of the State of Montana

Consolidated Statements of Net Assets

As of June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (note 3)	$ 62,047,582	$ 73,576,523
Securities lending collateral	5,549,695	1,618,758
Investments	300,265	298,523
Accounts and grants receivable, net	6,223,443	6,217,715
Due from Federal government	9,026,359	8,606,212
Due from primary government	1,217,823	942,880
Due from other State of Montana component units	407,757	296,783
Loans to students, net	1,796,341	1,882,046
Inventories	2,065,244	1,929,532
Prepaid expenses and deferred charges	4,389,772	4,608,992
Total current assets	$ 93,024,281	$ 99,977,964
Noncurrent Assets		
Restricted cash and cash equivalents	$ 285,709	$ 291,099
Restricted investments	19,306,377	20,220,317
Other long term investments	49,060,601	31,197,115
Loans to students, net	9,935,837	9,808,321
Bond issuance costs	1,170,965	1,617,790
Capital assets, net	354,632,786	355,071,245
Total Noncurrent Assets	$ 434,392,275	$ 418,205,887
Total Assets	$ 527,416,556	$ 518,183,851
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 16,920,811	$ 23,862,372
Due to Federal government	294,457	14,336
Due to primary government	1,344,740	1,052,066
Due to other State of Montana component units	17,737	51,484
Securities lending liability	5,549,695	1,618,758
Student and other deposits	2,356,943	1,883,430
Deferred revenue	12,815,551	14,552,941
Accrued compensated absences	9,782,001	9,500,465
Current portion of long-term obligations	6,712,582	6,342,596
Total Current Liabilities	$ 55,794,517	$ 58,878,448
Noncurrent Liabilities		
Accrued compensated absences	$ 14,318,175	$ 14,001,830
Deferred compensation	136,866	-
Long term obligations	111,623,981	118,399,626
Advances from primary government	14,644,719	9,940,935
Other post employment benefits	39,867,018	33,256,652
Due to Federal Government	10,189,903	10,257,305
Total Noncurrent Liabilities	$ 190,780,662	$ 185,856,348
Total Liabilities	$ 246,575,179	$ 244,734,796
NET ASSETS		
Invested in capital assets, net of related debt	$ 223,808,759	$ 226,563,565
Restricted for:		
Nonexpendable		
Endowments	17,856,351	18,692,462
Loans	1,952,887	1,980,662
Expendable		
Loans	2,082,448	2,031,887
Scholarships, research, instruction, and other	3,986,843	3,648,721
Unrestricted	31,154,089	20,531,758
Total Net Assets	$ 280,841,377	$ 273,449,055
Total Liabilities & Net Assets	$ 527,416,556	$ 518,183,851

The accompanying notes are an integral part of these financial statements.

The University of Montana

A Component Unit of the State of Montana

University Component Units - Combined Statements of Financial Position

As of June 30, 2012 or December 31, 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 9,401,650	$ 9,101,688
Short-term investments	4,373,242	4,098,659
Accrued dividends and interest	151,692	135,640
Investments	181,863,228	184,919,313
Contributions receivable, net	7,844,122	9,426,369
Student loans and other receivables	248,558	296,260
Depreciable assets, net of accumulated depreciation	5,381,302	4,119,670
Other assets	1,906,001	847,705
Total Assets	$ 211,169,795	$ 212,945,304
LIABILITIES		
Accounts payable	$ 472,676	$ 409,692
Accrued expenses	122,791	122,965
Compensated absences	248,055	241,466
Note payable - bank	40,000	40,000
Liabilities to external beneficiaries	2,900,688	2,969,787
Custodial funds	19,052,136	19,934,779
Other liabilities	307,312	430,497
Total Liabilities	$ 23,143,658	$ 24,139,186
NET ASSETS		
Net assets - unrestricted	$ 8,665,313	$ 9,949,947
Net assets - temporarily restricted	53,295,598	57,891,124
Net assets - permanently restricted	126,065,226	120,965,047
Total Net Assets	$ 188,026,137	$ 188,806,118
Total Liabilities & Net Assets	$ 211,169,795	$ 212,945,304

The accompanying notes are an integral part of these financial statements.

The University of Montana

A Component Unit of the State of Montana

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Tuition and fees (net of scholarship allowances in 2012 and 2011 of $31,958,101 and $30,852,602, respectively)	$ 124,293,893	$ 124,581,298
Federal grants and contracts	52,309,030	55,911,233
State and local grants and contracts	10,037,240	11,041,634
Nongovernmental grants and contracts	6,754,837	5,963,467
Grant and contract facilities and administrative cost allowances	9,040,847	9,580,411
Sales and services of educational departments	16,927,044	15,841,888
Auxiliary enterprises charges:		
Residential life (net of scholarship allowances in 2012 and 2011 of $926,024 and $1,097,889, respectively)	14,619,288	14,414,725
Food services (net of scholarship allowances in 2012 and 2011 of $926024 and $1,097,889, respectively)	13,126,570	12,737,142
Other auxiliary revenues	11,808,596	11,859,709
Interest earned on loans to students	49,976	47,864
Other operating revenues	5,388,841	5,655,968
Total operating revenues	$ 264,356,162	$ 267,635,339
OPERATING EXPENSES:		
Compensation and employee benefits	$ 241,556,727	$ 239,299,531
Other post employment benefits (note 18)	6,610,365	9,310,299
Other (note 24)	90,939,245	89,073,774
Scholarships and fellowships	29,551,301	30,097,552
Depreciation and amortization	22,373,703	22,019,856
Total operating expenses	$ 391,031,341	$ 389,801,012
OPERATING LOSS	$ (126,675,179)	$ (122,165,673)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	$ 84,222,427	$ 69,184,267
State appropriations - Federal ARRA	-	13,346,787
Federal financial aid grants and contracts	34,426,489	33,922,436
Land grant revenues	1,771,181	1,646,236
Private gifts	13,330,780	10,648,261
Investment income	1,566,772	5,214,416
Interest expense	(6,142,545)	(6,496,347)
Net non-operating revenues	$ 129,175,104	$ 127,466,056
INCOME BEFORE OTHER REVENUES (EXPENSES)	$ 2,499,925	$ 5,300,383
OTHER REVENUES (EXPENSES):		
Capital grants and gifts	$ 5,027,229	$ 17,715,130
Loss on disposal of capital assets	(134,832)	(2,660)
Other (note 22)	-	(1,750,000)
Total other revenues	$ 4,892,397	$ 15,962,470
Net increase in net assets	$ 7,392,322	$ 21,262,853
NET ASSETS:		
Net assets - beginning of year	$ 273,449,055	$ 252,186,202
Net assets - end of year	$ 280,841,377	$ 273,449,055

The accompanying notes are an integral part of these financial statements.

The University of Montana

A Component Unit of the State of Montana

University Component Units - Combined Statement of Activities

For the Years Ended June 30, 2012 or December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
REVENUES:				
Contributions	$ 1,214,066	$ 13,325,501	$ 5,363,191	$ 19,902,758
Interest and dividend income	536,907	3,059,648	7,992	3,604,547
Net realized and unrealized gain on investments	(1,480,378)	(4,796,706)	(255,228)	(6,532,312)
Administrative fees	479,272	-	-	479,272
Support received from university	425,000	69,005	-	494,005
Special events	440,685	-	-	440,685
Other income	183,611	1,624,910	-	1,808,521
Net assets released from restrictions	17,375,431	(17,375,431)	-	-
Total revenues	$ 19,174,594	$ (4,093,073)	$ 5,115,955	$ 20,197,476
EXPENSES:				
Program services				
Academic and institutional	$ 6,955,336	$ -	$ -	$ 6,955,336
Capital expenses	908,094	-	-	908,094
Pledge adjustments	16	94,830	15,776	110,622
Scholarships and awards	6,242,092	-	-	6,242,092
Total program services	$ 14,105,538	$ 94,830	$ 15,776	$ 14,216,144
Operating expenses				
Fundraising efforts	$ 2,869,166	$ -	$ -	$ 2,869,166
General and administrative	3,280,374	-	-	3,280,374
Investment management costs	151,852	-	-	151,852
Other miscellaneous	91,040	-	-	91,040
Total operating expenses	$ 6,392,432	$ -	$ -	$ 6,392,432
Change in net assets before nonoperating items	$ (1,323,376)	$ (4,187,903)	$ 5,100,179	$ (411,100)
NON-OPERATING REVENUES (EXPENSES):				
Payments to beneficiaries and change in liabilities due to external beneficiaries	38,742	(407,623)	-	(368,881)
Reclassification of net assets	-	-	-	-
Change in net assets	$ (1,284,634)	$ (4,595,526)	$ 5,100,179	$ (779,981)
Net assets, beginning of year	9,949,947	57,891,124	120,965,047	188,806,118
Net assets, end of year	$ 8,665,313	$ 53,295,598	$ 126,065,226	$ 188,026,137

The University of Montana

A Component Unit of the State of Montana

University Component Units - Combined Statement of Activities

For the Years Ended June 30, 2011 or December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
REVENUES:				
Contributions	$ 1,167,291	$ 11,788,851	$ 5,480,821	$ 18,436,963
Interest and dividend income	504,984	3,151,719	-	3,656,703
Net realized and unrealized gain on investments	6,280,091	19,504,738	362,553	26,147,382
Administrative fees	437,477	-	-	437,477
Gain (loss) on sale of assets	(591)	-	-	(591)
Support received from university	427,000	68,840	-	495,840
Special events	469,367	104,767	-	574,134
Other income	59,019	1,619,470	18,507	1,696,996
Net assets released from restrictions	19,690,980	(19,690,980)	-	-
Total revenues	$ 29,035,618	$ 16,547,405	$ 5,861,881	$ 51,444,904
EXPENSES:				
Program services				
Academic and institutional	$ 6,137,694	$ -	$ -	$ 6,137,694
Capital expenses	3,650,520	-	-	3,650,520
Pledge Adjustments	(677)	603,309	34,496	637,128
Scholarships and awards	6,288,837	-	-	6,288,837
Total program services	$ 16,076,374	$ 603,309	$ 34,496	$ 16,714,179
Operating expenses				
Fundraising efforts	$ 2,725,899	$ -	$ -	$ 2,725,899
General and administrative	3,123,108	-	-	3,123,108
Investment management costs	178,964	-	-	178,964
Other miscellaneous	102,729	-	-	102,729
Total operating expenses	$ 6,130,700	$ -	$ -	$ 6,130,700
Change in net assets before nonoperating items	$ 6,828,544	$ 15,944,096	$ 5,827,385	$ 28,600,025
NON-OPERATING REVENUES (EXPENSES):				
Payments to beneficiaries and change in liabilities due to external beneficiaries	9,424	(348,575)	-	(339,151)
Reclassification of net assets	-	166,450	(166,450)	-
Change in net assets	$ 6,837,968	$ 15,761,971	$ 5,660,935	$ 28,260,874
Net assets, beginning of year	3,111,979	42,129,153	115,304,112	160,545,244
Net assets, end of year	$ 9,949,947	$ 57,891,124	$ 120,965,047	$ 188,806,118

The accompanying notes are an integral part of these financial statements.

The University of Montana

A Component Unit of the State of Montana

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 123,078,722	$ 124,097,203
Federal grants and contracts	50,941,941	57,226,272
State grants and contracts	9,794,247	11,320,005
Nongovernmental grants and contracts	6,577,747	6,102,873
Grant and contract facilities and administrative cost allowances	9,040,847	9,580,411
Sales and services of educational activities	17,515,204	15,644,571
Auxiliary enterprises charges	39,822,358	38,954,973
Interest earned on loans to students	170,799	184,836
Other operating receipts	5,484,085	5,494,109
Payments to employees for salaries and benefits	(245,454,921)	(238,994,884)
Operating expenses	(92,981,296)	(89,280,391)
Payments for scholarships and fellowships	(29,551,301)	(30,097,552)
Loans made to students	(1,552,832)	(1,384,206)
Loan payments received	1,511,019	1,520,763
Net Cash Used by Operating Activities	$(105,603,381)	$ (89,631,017)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 84,222,427	$ 69,184,268
State appropriations - Federal ARRA	-	13,346,787
Matching funds paid on federal capital grant	-	(1,750,000)
Land Grants	1,771,187	1,646,236
Federal financial aid grants and contracts	34,426,489	33,922,436
Private Gifts for other than capital purposes	13,255,129	10,648,261
Net Cash Provided by Noncapital Financing Activities	$ 133,675,232	$ 126,997,988
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	$ (20,042,000)	$ (10,000,000)
Proceeds from sales of investments	2,500,000	19,000,000
Cash equivalent investment reclassified to other long term investments	123,249	126,432
Earnings received on investments	2,095,955	2,003,575
Net Cash (Used) Provided by Investing Activities	$ (15,322,796)	$ 11,130,007
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	$ (16,978,654)	$ (20,742,316)
Capital gifts	-	6,783,039
Proceeds from the sale of capital assets	15,946	66,456
Proceeds from the issuance of refunding revenue bonds	41,036,856	48,667,400
Payment to advance refund revenue bonds	(40,840,709)	(48,277,772)
Bond issue costs paid on new issue	(196,146)	(352,587)
Proceeds from the issuance of subordinated bonds payable	-	107,710
Proceeds from notes payable and advances from primary government	6,648,494	2,038,278
Principal paid on notes payable, advance from primary government, and capital leases	(1,941,257)	(1,501,291)
Principal paid on bonds payable	(6,146,000)	(5,779,700)
Interest paid on capital debt and leases	(5,881,916)	(5,713,223)
Net Cash Used by Capital and Related Financing Activities	$ (24,283,386)	$ (24,704,006)
Net (Decrease) Increase in Cash and Cash Equivalents	$ (11,534,331)	$ 23,792,972
Cash and Cash Equivalents, Beginning of Year	$ 73,867,622	$ 50,074,650
Cash and Cash Equivalents, End of Year	$ 62,333,291	$ 73,867,622

The accompanying notes are an integral part of these financial statements.

The University of Montana

A Component Unit of the State of Montana

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

(Continued)

	2012	2011
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	$(126,675,179)	$(122,165,673)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Noncash expense:		
Depreciation and amortization expense	22,373,703	22,019,856
Other post employment benefits	6,610,365	9,310,299
Changes in assets and liabilities:		
Accounts receivable	(811,792)	1,622,978
Loans to students	(41,811)	136,557
Inventories	(135,713)	(131,774)
Prepaid expenses and deferred charges	219,220	(560,019)
Accounts payable and accrued expenses	(6,408,779)	1,189,022
Deferred revenue	(1,737,390)	(658,602)
Student and other deposits	473,513	(174,331)
Due to federal government	(67,399)	(64,852)
Compensated absences	597,881	(154,478)
Net Cash Used by Operating Activities	$(105,603,381)	$ (89,631,017)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions		
Fixed assets acquired by incurring capital lease obligations	$ 80,140	$ 323,094
Increase in fair value of investments recognized as a component of interest income	$ (457,335)	$ 3,066,152
Fixed assets acquired from Capital grants and donations	$ 5,027,229	$ 13,094,860
Bond issue costs, discounts, premiums and deferred loss on refunding, amortized to interest expense	$ 248,618	$ 695,571
Reconciliation of Cash and Cash Equivalent to the Statement of Net Assets		
Cash and cash equivalents classified as current assets	$ 62,047,582	$ 73,576,523
Cash and cash equivalents classified as noncurrent assets	$ 285,709	$ 291,099
Total Cash and Cash Equivalents, End of Year	$ 62,333,291	$ 73,867,622

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THE UNIVERSITY OF MONTANA
A COMPONENT UNIT OF THE STATE OF MONTANA
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 – ORGANIZATION, REPORTING ENTITY AND BASIS OF PRESENTATION

- **ORGANIZATION**

The University of Montana (University) is a component unit of the State of Montana (State) with an enrollment of approximately 21,000 students on its four campuses. The State of Montana Board of Regents (Board of Regents) is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

- **REPORTING ENTITY**

The accompanying consolidated financial statements include all activities of the four campuses of the University, the Forestry Experiment Station and the Montana Bureau of Mines. The four campuses of the University are The University of Montana – Missoula, Montana Tech of The University of Montana, which is located in Butte, The University of Montana – Western, which is located in Dillon, and The University of Montana - Helena College of Technology.

GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14" requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. The University has established a threshold minimum of one percent of consolidated net assets or one percent of consolidated revenues as an additional requirement for inclusion of an organization as a component unit in its financial statements. In addition, other organizations should be evaluated for inclusion if they are closely related to, or financially integrated with, the reporting entity. All component units and other related organizations will be tested and evaluated on an annual basis for inclusion under GASB No. 39. Accordingly, the University has identified and will present the combined activities of four component units, The University of Montana Foundation, The Montana Tech Foundation, The University of Montana - Western Foundation, and the Montana Grizzly Scholarship Association. For further discussion of accounting for component units, see Consolidated Financial Statements Note 23, "Accounting for Component Units."

The University is considered a component unit of the State of Montana under GASB No. 14. As such, the financial statements for the University are included as a component part of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

- **BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments" and GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," the University is required to present a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. All significant intra-entity transactions have been eliminated upon consolidation.

Notes to the Consolidated Financial Statements (continued)

Also, in accordance with GASB Statement No. 39, the combined statement of financial position and statement of activities of the four component units referred to above are separately presented following the respective University financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

▪ BASIS OF ACCOUNTING

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University's consolidated financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University elected to not apply FASB pronouncements issued after the applicable date.

▪ USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

▪ CASH EQUIVALENTS

For purposes of the Consolidated Statement of Cash Flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in money market funds and in the Short Term Investment Pool (STIP) with the Montana Board of Investments are considered cash equivalents.

▪ INVESTMENTS

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

▪ ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

▪ INVENTORIES

Inventories are comprised of consumable supplies, food items and items held for resale or recharge within the University. The larger inventories are valued using the moving-average method. Other inventories are valued using First-In-First-Out (FIFO) or specific identification methods.

▪ CASH AND SHORT–TERM INVESTMENTS

Cash and investments that are externally restricted to make debt service payments, or by a donor or outside agency prohibiting the expenditure of principal and possibly earnings, are classified as non-current assets in the Consolidated Statement of Net Assets.

Notes to the Consolidated Financial Statements (continued)

▪ **CAPITAL ASSETS**

Capital assets are stated at cost or fair market value at date of purchase or donation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The table below illustrates the capitalization thresholds.

Capital Asset Category:		Capitalization Threshold Amount:
Equipment	$	5,000
Buildings, Building Improvements, Land Improvements	$	25,000
Intangibles	$	100,000
Intangibles - Internally Generated	$	500,000
Infrastructure	$	500,000

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings - 40 years; land improvements and infrastructure - 20 and 40 years, respectively; library books - 8 years; and equipment - 3 to 10 years. Amortization is computed on a straight-line basis over the estimated 4 to 20 year useful lives of intangible assets. Intangible assets with indefinite useful lives are not amortized. Historically, the University has capitalized all artwork subject to applicable capitalization policies at the time of donation or purchase. The University has elected to continue to capitalize artwork subject to the current threshold, but without recording depreciation on those items.

▪ **DEFERRED REVENUE**

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

▪ **COMPENSATED LEAVE**

Eligible University employees earn eight hours sick leave and ten hours annual leave for each month worked. The accrual rate for annual leave increases with length of service. The maximum annual leave that eligible employees may accumulate is two hundred percent of their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971, and one hundred percent of accumulated annual leave, if not used during employment, is paid upon termination.

▪ **NET ASSETS**

The University's net assets are categorized as follows:

- **Invested in capital assets, net of related debt -** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted, nonexpendable -** Net assets subject to externally imposed stipulations which require that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.

- **Restricted, expendable -** Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted -** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

▪ **CLASSIFICATION OF REVENUES**

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

- **Operating revenue -** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.
- **Non-operating revenues -** Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are state appropriations, investment income, and federal financial aid grants and contracts.

▪ **USE OF RESTRICTED REVENUES**

When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis. Restricted funds remain classified as restricted until they have been expended.

▪ **SCHOLARSHIP DISCOUNTS AND ALLOWANCES**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's consolidated financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

NOTE 3 – CASH DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

▪ **CASH DEPOSITS**

The University must comply with State statutes, which generally require that cash remain on deposit with the State treasury, and as such are subject to the State's investment policies. Certain exceptions exist, which allow funds to be placed on deposit with trustees to satisfy bond covenants or to maximize investment earnings by placing certain funds with University foundations. Deposits with State treasury and other financial institutions at June 30, 2012 and 2011 totaled $27,877,509 and $33,755,975, respectively. The University does not have a formal policy that addresses custodial credit risk for cash deposits with other financial institutions.

▪ **CASH EQUIVALENTS**

Cash equivalents consist of $500,461 of cash invested in money market funds with First American Funds and US Bank, and $33,750,483 in the Short Term Investment Pool (STIP) with the Montana Board of Investments. Amounts held in cash equivalents at June 30, 2012 and 2011 were $34,250,944 and $39,926,395, respectively. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable rate, or floating rate instruments to provide diversification and a competitive rate of return. The First American Funds, Prime Obligations Money Market Fund invests in short-term debt obligations, including commercial paper, U.S. dollar-dominated obligations of domestic and foreign banks, non-convertible corporate debt securities, U.S. government or agency securities, loan participation interests, and repurchase agreements. Investments in STIP and the money market fund may be withdrawn by the University on demand, and as such, are classified as cash equivalents.

Notes to the Consolidated Financial Statements (continued)

INVESTMENTS

Investments consisted of the following at June 30, 2012 and 2011:

Security Type	Fair Value 2012	Fair Value 2011	Effective Duration at June 30, 2012[1]	Credit Quality Rating at June 30, 2011[3]
U.S. Government Sponsored Entities	$ 19,188,839	$ 16,844,167	1.03	AAA
Short Term Investment Pool (STIP)[4]	556,305	679,554	Not applicable	NR
Trust Fund Investment Pool (TFIP)	31,395,423	15,714,280	4.90[2]	NR
Montana Domestic Equity Pool (MDEP)	1,259,087	1,232,935	Not applicable	N/A
Foundation Pooled Investments	15,863,602	16,946,496	Not applicable	N/A
Certificates of Deposits	300,265	298,523	Not applicable	N/A
Other	103,722	-	Not applicable	N/A
Total investments	$ 68,667,243	$ 51,715,955		
Securities Lending Collateral Investment Pool	$ 5,549,695	$ 1,618,758	[5]	NR

[1]See Interest Rate Risk under the Investment Risks disclosure included in this note.

[2]Effective duration for the Trust Fund Investment Pool (TFIP) is for the entire portfolio. The University's ownership represents less than 0.9% of the portfolio

[3]NR indicates security investment unrated for credit quality type.

[4]Structured Investment Vehicle investments in STIP portfolio reclassified from cash and cash equivalents.

[5]Securities Lending Quality Trust liquidity pool had an average duration of 25 days and an average weighted final maturity of 61 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 60days for U.S. dollar collateral.

Investments held by the University at June 30, 2012 and 2011 are described further in the paragraphs below.

U.S. Government Sponsored Entities

U.S. government sponsored entities securities are mortgage-backed securities purchased and administered by the Montana Board of Investments (MBOI), or bond trustee funds managed by U.S. Bank for the University. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. All of the securities were registered under the nominee's name (MBOI or U.S. Bank) on behalf of the University.

Montana Board of Investments Pools

The University is a participant in certain internal investment pools administered by the Montana Board of Investments (MBOI). MBOI purchases investments for each portfolio in accordance with the statutorily mandated "Prudent Expert Principle." The University was invested in the following internal investment pools at June 30, 2012 and 2011:

Montana Domestic Equity Pool (MDEP)

The MDEP portfolio may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR's), equity derivatives and commingled funds. ADR's are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives "derive" their value from other equity instruments such as futures and options. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together, to reduce management and administration costs. MDEP portfolio is limited to domestic stock or ADR investments.

Trust Funds Investment Pool (TFIP)

The TFIP portfolio includes corporate and foreign government bonds; U.S. government direct obligations and U.S. government agency securities; and cash equivalents. U.S. government direct obligations include U.S. Treasury securities and debt explicitly guaranteed by the U.S. government. U.S. government agency securities include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

The University Foundation Pools

This pool consists of endowment funds held in a common investment pool administered by the University of Montana and Montana Tech Foundations. The Foundations portfolio includes cash equivalents, fixed income and equity securities.

Certificates of deposit

Certificates of deposit serve as collateral for loans made to students with disabilities for the purchase of specialized equipment necessary to complete their education. The certificate of deposit, including interest earned, is reinvested upon maturity.

Securities lending transactions

Under the provisions of state statutes, the Board of Investments, via a Securities Lending Authorization Agreement, has authorized the custodial bank, State Street Bank and Trust, to lend the Board of Investment's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board of Investments and the bank split the earnings on security lending activities. The Board of Investments retains all rights and risks of ownership during the loan period.

During the years ending June 30, 2012 and 2011, the Board of Investments and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified-plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board of Investment's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board of Investments could not determine. At June 30, 2012 and 2011, the Board of Investments had no credit risk exposure to borrowers.

Investment risks

Effective June 30, 2005, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures." Investments administered by the MBOI for the University are subject to their investment risk policies. The University does not have a formal investment policy for interest rate risk, credit risk or custodial risk. Detailed asset maturity and other information demonstrating risk associated with the State of Montana Board of Investments STIP and TFIP is contained in the State of Montana Board of Investments financial statements, and may be accessed by contacting the Board of Investments at P.O. Box 200126, Helena, MT 59620-0126.

Investment risks associated with the University's investments are described in the following paragraphs:

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement No. 40, interest rate risk disclosures are not required for STIP since STIP is a 2a-7-like pool. The TFIP investment policy does not formally address interest rate risk.

In accordance with GASB Statement No. 40, the State of Montana has selected the effective duration method to disclose interest rate risk. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. It uses the present value of the cash flows from the investment, weighting those cash flows as a percentage of the investment's full price.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, all STIP securities and TFIP fixed income instruments have credit risk as measured by major credit rating services. The First American money market fund has received AAA credit quality ratings from three NSRO's: Moody's; Standard and Poor's; and Fitch.

U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Notes to the Consolidated Financial Statements (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2012 and 2011, all STIP, MDEP and TFIP securities were registered in the nominee name for the MBOI and held in the possession of the Board's custodial bank, State Street Bank

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement. MDEP investments in pooled investments are also excluded from this requirement. According to the TFIP Investment Policy, "with the exception of the U.S. government/agency securities, additional purchases will not be made in a security if the credit risk exceeds 2 percent of the portfolio at the time of purchase." The concentration of credit risk exposure for U.S. government sponsored entities securities held at June 30, 2012 and 2011, expressed as a percentage of total investments, was 27.94% and 44.64%, respectively.

Land grant earnings

In 1881, the Congress of the United States granted land to the State of Montana for the benefit of the state's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber, oil royalties and other minerals, must be reinvested, and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was $1,771,181 and $1,456,378 for the years ended June 30, 2012 and 2011, respectively. These earnings are currently pledged to the Series I 2004, Series J 2005, Series K 2010 and Series L 2012 revenue bonds.

The University's land grant assets are not reflected in the consolidated financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

NOTE 4 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts Receivable consisted of the following at June 30, 2012 and 2011:

	2012	2011
Student tuition and fees	$ 5,305,533	$ 4,167,175
Auxiliary enterprises and other operating activities	2,110,587	2,531,449
Private grants and contracts	1,134,493	1,300,646
Other	120,390	131,104
Gross accounts and grants receivable	8,671,003	8,130,374
Less: allowance for doubtful accounts	2,447,560	1,912,660
Net accounts and grants receivable	$ 6,223,443	$ 6,217,715

Notes to the Consolidated Financial Statements (continued)

NOTE 5 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan receivable balances. Included in non-current liabilities as of June 30, 2012 and 2011 are $10,189,903 and $10,257,305, respectively, that would be refundable to the Federal Government should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portion of interest income and loan program expenses is shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the Consolidated Statement of Net Assets.

NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30, 2012 and 2011:

	2012	2011
Bookstore	$ 806,022	$ 737,442
Food services	187,804	153,931
Facilities services	736,839	766,045
Other	334,579	272,114
Total inventories	$ 2,065,244	$ 1,929,532

NOTE 7 – PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and other deferred charges consisted of the following at June 30, 2012 and 2011:

	2012	2011
Summer session	$ 641,969	$ 651,974
Travel advances	38,695	22,844
Other prepaid expenses	3,709,108	3,934,174
Total prepaid expenses and other deferred charges	$ 4,389,772	$ 4,608,992

Notes to the Consolidated Financial Statements (continued)

NOTE 8 – CAPITAL ASSETS

The following tables present the changes in capital assets for the years ended June 30, 2012 and 2011, respectively.

For the year ended June 30, 2012:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	$ 7,817,232	-	-	-	$ 7,817,232
Capitalized collections	17,430,138	14,400	-	-	17,444,538
Construction in progress	30,463,344	11,086,259	-	(23,131,065)	18,418,538
	55,710,714	11,100,659	-	(23,131,065)	43,680,308
Other capital assets:					
Land improvements	12,883,611	1,271,130	-	-	14,154,741
Infrastructure	6,769,546				6,769,546
Buildings	311,579,299	248,362	-	916,954	312,744,615
Building improvements	168,562,191	3,175,806	-	19,520,663	191,258,660
Furniture and equipment	68,281,443	6,506,660	1,296,123	-	73,491,980
Library materials	56,340,779	900,737	-	-	57,241,516
Livestock	16,750	22,500	-	-	39,250
	624,433,619	12,125,195	1,296,123	20,437,617	655,700,308
Less accumulated depreciation for:					
Land improvements	9,804,818	279,889	-	-	10,084,707
Infrastructure	352,320	169,238	-	-	521,558
Buildings	117,722,072	6,401,028	-	-	124,123,100
Building improvements	108,182,212	8,063,060	-	-	116,245,272
Furniture and equipment	41,362,401	5,714,014	1,189,870	-	45,886,545
Library materials	49,693,267	1,359,150	-	-	51,052,417
Livestock	6,750	3,016	-	-	9,766
	327,123,840	21,989,395	1,189,870	-	347,923,365
Other capital assets, net	297,309,779	(9,864,200)	106,253	20,437,617	307,776,943
Intangible assets	2,050,752	1,509,091	384,308	-	3,175,535
Total capital assets, net	$ 355,071,245	$ 2,745,550	$ 490,561	$ (2,693,448)	$ 354,632,786
Capital Asset Summary:					
Capital assets not being depreciated	$ 55,710,714	$ 11,100,659	$ -	$ (23,131,065)	$ 43,680,308
Other capital and intangible assets	626,484,371	13,634,286	1,680,431	20,437,617	658,875,843
	682,195,085	24,734,945	1,680,431	(2,693,448)	702,556,151
Less: accumulated depreciation	327,123,840	21,989,395	1,189,870	-	347,923,365
Total capital assets, net	$ 355,071,245	$ 2,745,550	$ 490,561	$ (2,693,448)	$ 354,632,786

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2011:

	Beginning Balance	Additions	Deletions	Transfers and Other Changes	Ending Balance
Capital assets not being depreciated:					
Land	$ 7,817,232	$ -	$ -	$ -	$ 7,817,232
Capitalized collections	17,160,147	269,991	-	-	17,430,138
Construction in progress	18,183,800	23,309,657	-	(11,030,113)	30,463,344
	43,161,179	23,579,648	-	(11,030,113)	55,710,714
Other capital assets:					
Land improvements	12,883,611	-	-	-	12,883,611
Infrastructure	6,769,546	-	-	-	6,769,546
Buildings	312,951,913	210,280	1,981,967	399,073	311,579,299
Building improvements	157,363,294	567,857	-	10,631,040	168,562,191
Furniture and equipment	62,942,098	6,267,866	928,521	-	68,281,443
Library materials	54,945,183	1,571,878	176,282	-	56,340,779
Livestock	13,899	8,000	5,149	-	16,750
	607,869,544	8,625,881	3,091,919	11,030,113	624,433,619
Less accumulated depreciation for:					
Land improvements	9,529,349	275,469	-	-	9,804,818
Infrastructure	183,081	169,239	-	-	352,320
Buildings	111,222,534	6,499,538	-	-	117,722,072
Building improvements	100,101,842	8,081,147	777	-	108,182,212
Furniture and equipment	36,645,178	5,524,556	807,333	-	41,362,401
Library materials	48,523,013	1,286,240	115,986	-	49,693,267
Livestock	9,588	1,392	4,230	-	6,750
	306,214,585	21,837,581	928,326	-	327,123,840
Other capital assets, net	301,654,959	(13,211,700)	2,163,593	11,030,113	297,309,779
Intangible assets	346,576	1,886,451	-	(182,275)	2,050,752
Total capital assets, net	$ 345,162,714	$ 12,254,399	$ 2,163,593	$ (182,275)	$ 355,071,245
Capital Asset Summary:					
Capital assets not being depreciated	$ 43,161,179	$ 23,579,648	$ -	$ (11,030,113)	$ 55,710,714
Other capital and intangible assets	608,216,120	10,512,332	3,091,919	10,847,838	626,484,371
	651,377,299	34,091,980	3,091,919	(182,275)	682,195,085
Less: accumulated depreciation	306,214,585	21,837,581	928,326	-	327,123,840
Total capital assets, net	$ 345,162,714	$ 12,254,399	$ 2,163,593	$ (182,275)	$ 355,071,245

Notes to the Consolidated Financial Statements (continued)

NOTE 9 – DEFERRED REVENUES

Deferred Revenues consisted of the following at June 30, 2012 and 2011:

	2012	2011
Grant and contract revenue received in advance	$ 3,989,521	$ 5,434,853
Summer session payments received in advance	3,085,595	3,356,453
Other deferred revenues	5,740,435	5,761,635
Total deferred revenue	$ 12,815,551	$ 14,552,941

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2012 and 2011:

	2012	2011
Compensation, benefits and related liabilities	$ 9,168,771	$ 19,584,954
Accrued interest expense	567,452	701,173
Accounts payable and other accrued liabilities	7,184,588	3,576,245
Total accounts payable and accrued liabilities	$ 16,920,811	$ 23,862,372

NOTE 11 – LONG–TERM LIABILITIES

The following tables present the changes in long-term liabilities for the years ended June 30, 2012 and 2011, respectively:

For the year ended June 30, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	$ 123,814,894	$ 41,425,253	$ 47,592,725	$ 117,647,422	$ 6,500,000
Subordinated bonds payable	319,000	-	31,000	288,000	32,000
Notes payable	212,453	-	49,637	162,816	51,886
Capital leases payable	395,875	80,142	237,692	238,325	128,696
	124,742,222	41,505,395	47,911,054	118,336,563	6,712,582
Other long-term liabilities					
Accrued compensated absences	23,502,295	10,161,266	9,563,385	24,100,176	9,782,001
Deferred compensation	-	136,866	-	136,866	-
Advances from primary government	10,969,990	6,648,493	1,653,928	15,964,555	1,319,836
Other Post Employment Benefits	33,256,652	6,610,366	-	39,867,018	-
Due to Federal Government	10,257,305	-	67,402	10,189,903	-
	77,986,242	23,556,991	11,284,715	90,258,518	11,101,837
Total long-term liabilities	$ 202,728,464	$ 65,062,386	$ 59,195,769	$ 208,595,081	$ 17,814,419

Notes to the Consolidated Financial Statements (continued)

For the year ended June 30, 2011:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Revenue bonds payable, net	$ 128,850,651	$ 49,146,995	$ 54,182,752	$ 123,814,894	$ 6,115,000
Subordinated bonds payable	225,988	107,712	14,700	319,000	32,000
Notes payable	259,939	-	47,486	212,453	49,637
Capital leases payable	257,475	323,094	184,694	395,875	145,959
	129,594,053	49,577,801	54,429,632	124,742,222	6,342,596
Other long-term liabilities					
Accrued compensated absences	23,656,773	9,589,061	9,743,539	23,502,295	9,500,465
Advances from primary government	10,200,824	2,038,278	1,269,112	10,969,990	1,029,055
Other Post Employment Benefits	23,946,353	9,310,299	-	33,256,652	-
Due to Federal Government	10,322,154	-	64,849	10,257,305	-
	68,126,104	20,937,638	11,077,500	77,986,242	10,529,520
Total long-term liabilities	$ 197,720,157	$ 70,515,439	$ 65,507,132	$ 202,728,464	$ 16,872,116

Long-term liabilities include:

- capital lease obligations, principal amounts of bonds payable, revenue bonds payable, and notes payable with contractual maturities greater than one year;
- estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and
- other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

Capital Leases

The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2012:

Fiscal Year	Total
2013	$ 144,705
2014	62,244
2015	45,648
2016	11,318
2017	4,519
Minimum lease payments	$ 268,433
Less: Amount representing interest	30,108
Present value of net minimum lease payments	$ 238,325

Assets acquired under capital leases consist mainly of photocopiers. Such assets are carried at $1,259,459 with accumulated depreciation of $863,114 as of June 30, 2012.

NOTE 12 – REVENUE BONDS

Revenue bonds were issued pursuant to an Indenture of Trust between the Board of Regents of Higher Education for the State of Montana (on behalf of The University of Montana) and U. S. Bank Trust National Association MT. The bonds are secured by a first lien on the combined pledged revenues of the four campuses of The University of Montana. The pledged revenues earned at each campus are cross-pledged among all campuses of The University of Montana. Bonds payable recorded by each campus reflect the liability associated with the bond proceeds deposited into the accounts of that campus and do not necessarily mean that the debt service payments on that liability will be made by that campus.

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of The University of Montana at June 30, 2012 and 2011, was $170,966,783 and $154,190,000 respectively. The combined principal amount outstanding at June 30, 2012 and 2011 was $119,660,000 and $126,285,000, respectively.

Series F 1999

On November 12, 1999, The University of Montana issued $69,240,000 of Series F 1999 Revenue Bonds, with interest rates ranging from 3.80 percent to 6.00 percent. The proceeds from the issue were used for the purpose of restructuring Series B, C and D Facilities Improvement Revenue Bonds, and for the acquisition, construction, remodeling, improvement and equipping certain facilities and properties at The University of Montana.

The University of Montana recorded $58,205,000 of the Series F 1999 Revenue Bonds to advance refund $58,609,189 of outstanding Series B, C and D Facilities Improvements Revenue Bonds with average interest rates ranging from 4.30 percent to 6.65 percent. The Series B, C and D Facilities Improvements Revenue Bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements.

Included in the Series F issuance was $10,650,000 for construction of a new recreation facility at the University's Missoula campus. In September, 2005, the Series J 2005 Revenue Bond issuance advanced refunded the outstanding principal amount of this portion of the Series F 1999 issuance (see Series J 2005 below).

In December, 2011, $41,244,997 of Series F was advance refunded with the issuance of Series K 2010 Bonds, leaving a remaining outstanding balance of $15,290,000.

In June, 2012 the remaining outstanding balance of $15,290,000 of Series F was advanced refunded with the issuance of Series L 2012 Bonds, leaving a remaining outstanding balance of zero.

Series G 2002

On October 18, 2002, The University of Montana issued $18,900,000 of Series G Facilities Improvement Revenue Bonds, with interest ranging from 3.00 percent to 4.65 percent. The proceeds from the issue provided funds for the acquisition, construction, furnishing and equipping of certain student housing facilities on the Missoula campus.

In June, 2012 the remaining outstanding balance of $15,175,000 of Series G was advanced refunded with the issuance of Series L 2012 Bonds, leaving a remaining outstanding balance of zero.

Series I 2004

In April 2004, The University of Montana issued $40,490,000 of Series I Refunding and Facilities Improvement Revenue Bonds, with interest ranging from 3.00 percent to 4.75 percent. The proceeds from the issue paid and discharged $30,540,000 of Series A 1993, Revenue Bonds. The issuance also provided $7,000,000 towards expansion of the Skaggs Building and $2,950,000 for deferred maintenance on the Missoula campus.

In June, 2012 a portion of the outstanding balance of Series I Bonds was advanced refunded with the issuance of Series L 2012 Bonds. Prior to the advance refunding, the Series I total outstanding balance was $20,660,000. $9,460,000 was paid off with Series L, leaving a remaining balance of Series I of $11,200,000.

Series J 2005

On September 15, 2005, The University of Montana issued $31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue Bonds, with interest ranging from 3.0 percent to 4.5 percent. The proceeds from the issue, together with certain resources of the University, provided funds to pay and discharge a portion of the Series F Revenue Bonds, and finance or refinance, the costs of acquisition, construction, furnishing, equipping, renovation or improvement of certain University facilities.

The University of Montana recorded $11,120,000 of the Series J 2005 Revenue Bonds to advance refund $10,010,000 of outstanding Series F Facilities Improvement Revenue Bonds to reduce annual debt service payments. The interest rates on the advanced refunded revenue bonds ranged from 4.80 percent to 6.00 percent.

Notes to the Consolidated Financial Statements (continued)

The Series F Facilities Improvement Revenue Bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements.

Series K 2010

On October 21, 2010, the Board of Regents of Higher Education for the State of Montana authorized the University to issue a total of approximately $65 million of Series K 2010 (Taxable and Tax Exempt) Refunding Revenue Bonds. The bonds were subsequently issued on December 6, 2010 in the amount of $48,415,000. The interest rates on the Series K 2010 bonds range from 1.144% to 4.800%. Bond proceeds from the sale of the Series K 2010 bonds provided funds to legally defease all of the Series E and $41,244,997 of the Series F bonds, and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements. Prior to the advance refunding, the Series E 1998 bonds outstanding balance was $5,760,000 and the Series F bonds outstanding balance was $56,534,997. The Series K issuance provided funds to pay costs associated with the bond issuance.

The debt service cash flows for the Series K 2010 Revenue bonds (Refunding portion) are less than the debt service cash flow for the advanced refunded bonds by $3,669,560. The economic gain for The University of Montana from the advanced refunding was $2,980,499 (the difference between the present values of the debt service payments on the old and new debt).

Series L 2012

On June 12, 2012, The University of Montana issued $39,415,000 of Series L 2012 (Taxable and Tax Exempt) Refunding Revenue Bonds. The interest rates on the Series L 2012 bonds range from 2.250% to 5.000%. The bond proceeds from the sale of the Series L 2012 bonds provided funds to advance refund all of the $15,290,000 outstanding Series F 1999 Bonds, all of the $15,175,000 outstanding Series G 2002 Bonds and a portion of the outstanding Series I 2004 Bonds. Prior to the advance refunding, the Series I outstanding balance was $20,660,000. $9,460,000 of the Series I was paid off, leaving a remaining balance of $11,200,000. As a result of the Series L issuance, and advance refunding, the bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the consolidated financial statements. The Series L issuance provided funds to pay costs associated with the bond issuance.

The debt service cash flows for the Series L 2012 Revenue Bonds (refunding portion) are less than the debt service cash flows for the advance refunded bonds by $8,247,250. The economic gain for The University of Montana from the advanced refunding was $6,589,962 (the difference between the present values of the debt service payments on the old and new debt).

Defeased Bonds

The University has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2012 and 2011, $122,094,145 and $84,307,315, respectively, of bonds outstanding were considered defeased.

Notes to the Consolidated Financial Statements (continued)

Revenue Bonds Payable

As of June 30, 2012 annual principal payments are as follows:

Series I 2004

Fiscal Year	Interest Rate	Principal
2013	4.750%	$ 3,030,000
2014	4.750%	3,180,000
2015	3.700-4.750%	3,250,000
2016	3.750-4.375%	1,740,000
		11,200,000
Add net unamortized premium:		382,106
		$ 11,582,106

Series J 2005

Fiscal Year	Interest Rate	Principal
2013	4.250-4.500%	$ 1,090,000
2014	4.000-4.500%	1,130,000
2015	4.000-4.500%	1,145,000
2016	4.000-4.500%	1,165,000
2017	4.000%	1,210,000
2018-2022	4.000-4.250%	6,800,000
2023-2027	4.000-4.250%	7,505,000
2028-2030	4.250%	3,325,000
		23,370,000
Add net unamortized premium:		36,340
		$ 23,406,340

Series K 2010

Fiscal Year	Interest Rate	Principal
2013	1.637%-1.963%	1,760,000
2014	1.963%-2.545%	1,800,000
2015	2.545%-3.145%	1,860,000
2016	3.145%-3.634%	3,560,000
2017	3.634%-3.984%	5,475,000
2018-2022	3.984%-4.800%	31,220,000
		45,675,000
Add unamortized premium:		210,333
		$ 45,885,333

Notes to the Consolidated Financial Statements (continued)

Series L 2012

Fiscal Year	Interest Rate	Principal
2013	1.504%-3.000%	620,000
2014	1.504%-5.000%	485,000
2015	1.504%-5.000%	585,000
2016	1.504%-5.000%	610,000
2017	2.175%-5.000%	645,000
2018-2022	2.175%-5.000%	3,690,000
2023-2027	2.964%-4.000%	26,230,000
2028-2032	3.125%-4.000%	5,590,000
2033	4.000%	960,000
		39,415,000
Add net unamortized premium:		1,556,672
		$ 40,971,672

Revenue Bond Payable Summary:	
Total revenue bonds outstanding	$ 119,660,000
Add: Net unamortized premiums and discounts	2,185,451
Less: Unamortized loss on advance refunding	4,198,029
Revenue bonds payable, net	$ 117,647,422

The scheduled maturities of the revenue bonds payable are as follows:

Fiscal Year	Principal	Interest	Total Payment
2013	$ 6,500,000	$ 4,638,751	$ 11,138,751
2014	6,595,000	4,489,453	11,084,453
2015	6,840,000	4,225,362	11,065,362
2016	7,075,000	3,965,887	11,040,887
2017	7,330,000	3,726,551	11,056,551
2018-2022	41,710,000	13,657,600	55,367,600
2023-2027	33,735,000	4,754,235	38,489,235
2028-2032	8,915,000	1,043,488	9,958,488
2033	960,000	38,400	998,400
Total	$ 119,660,000	$ 40,539,727	$ 160,199,727

NOTE 13 – SUBORDINATE BONDS PAYABLE

In August, 2009, The Board of Regents of Higher Education adopted the Bond Resolution for the 2009 Series I and 2009 Series II Facility Improvement Bonds and authorized The University of Montana to complete the sale and delivery of bonds in the amount of $750,000 for the purpose of installing water backflow prevention devices on the University of Montana-Missoula campus. The Series I and II 2009 Bonds are subordinate obligations issued under Section 2.07(d) of The Indenture of Trust. The committed amounts for the Series I Bond and the Series II Bond are $416,300 and $333,700, respectively. Upon completion of the project and satisfaction of funding requirements, American Recovery and Reinvestment Act (ARRA) stimulus funds paid off the Series I bonds. The Series II bonds will be amortized over 10 years at a fixed rate of 1.75%. The bond proceeds are disbursed only for and after which costs have been incurred on the water improvement project. As of June 30, 2010, $225,988 was disbursed from the Series I Bond. As of June 30, 2011 the remaining funds were disbursed, and the Series I Bond committed amount was repaid as described above. The outstanding balance of the Series II Bond at June 30, 2012 is $288,000.

Notes to the Consolidated Financial Statements (continued)

NOTE 14 – NOTES PAYABLE

Notes payable at June 30, 2012 consisted of the following:

Description	Interest Rate	Maturity Date	Principal Outstanding	Current Maturities
Wells Fargo Bank	4.48%	1-May-15	162,816	51,886
Total			$ 162,816	$ 51,886

The scheduled maturities of the notes payable are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 51,886	$ 6,719	$ 58,605
2014	54,237	4,369	58,606
2015	56,693	1,912	58,605
Total	$ 162,816	$ 13,000	$ 175,816

NOTE 15 – COMPENSATED LEAVE

Employee compensated absences are accrued at year-end for consolidated financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statements of Net Assets, and as a component of compensation and benefit expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

NOTE 16 – ADVANCES FROM PRIMARY GOVERNMENT

Advances from the primary government are received through the Intercap Program and State Building Energy Conservation Program offered through the Montana Board of Investments and Montana Department of Environmental Quality, respectively. The Intercap program lends money to state agencies for the purpose of financing or refinancing the acquisition and installation of equipment or personal and real property and infrastructure improvements The State Building Energy Conservation Program (SBECP) lends money to state agencies to fund projects that create energy cost savings for state owned buildings. The program is financed through GO Bonds, American Recovery and Reinvestment Act funds and state general fund appropriations.

The Montana Science and Technology Alliance (MSTA) loan originates from a loan that was originally issued in 1994, and has a remaining term of 51 years. The interest rates are variable and are adjusted annually.

Notes to the Consolidated Financial Statements (continued)

Advances from Primary Government at June 30, 2012, are as follows:

Description	Interest Rate	Maturity	Principal
Intercap – Public Safety	Variable	15-Aug-16	$ 55,275
Intercap – Forestry	Variable	15-Aug-14	275,014
Intercap – Public Safety	Variable	15-Feb-13	146,807
Intercap – ASUM	Variable	15-Feb-13	23,993
Intercap – HPER Building Renovation	Variable	15-Feb-37	2,340,000
Intercap – ASUM	Variable	15-Feb-13	65,576
Intercap – Intercollegiate Athletics	Variable	15-Feb-14	106,331
Intercap – PE Electrical Repair	Variable	15-Feb-19	270,542
Intercap – Facility Services	Variable	15-Aug-24	434,185
Intercap – Information Systems	Variable	15-Feb-17	736,901
Intercap – Facility Services	Variable	15-Feb-20	202,977
Intercap – ASUM	Variable	15-Feb-14	115,871
Intercap – KUFM Software	Variable	15-Feb-16	30,663
Intercap – Van Replacements	Variable	15-Feb-16	71,513
Intercap – Suburbans	Variable	15-Aug-16	89,605
Intercap – O'Connor Center Remode	Variable	15-Feb-22	75,000
Intercap – Stadium Lighting	Variable	15-Feb-20	926,804
SBECP Project Loan-Health Sci GWC	5.279%	14-Feb-22	148,557
SBECP Project Loan-Health Sci Phase II	8.508%	15-Feb-24	51,391
SBECP Project Loan-Campus Steam Trap	3.000%	1-Feb-16	133,030
SBECP Project Loan-UM Skaggs Bldg	3.000%	1-Aug-27	1,330,861
SBECP Project Loan-Education Bldg	3.000%	1-Feb-26	212,787
SBECP Project Loan-Bio Research	3.000%	1-Feb-30	230,619
SBECP Project Loan-Anderson Bldg	3.000%	1-Feb-26	76,672
SBECP Project Loan-Fine Arts Bldg	3.000%	1-Feb-27	249,293
SBECP Project Loan-Music Bldg	3.000%	1-Feb-26	296,527
SBECP Project Loan-Campus Lighting	3.000%	1-Feb-26	126,378
SBECP Project Loan-UM COT Cooling Tower	3.000%	1-Aug-25	41,304
SBECP Project Loan-UM COT Lighting Upgr	3.000%	1-Aug-25	57,646
SBECP Project Loan-UM Lighting Ph II	3.000%	1-Feb-31	275,778
SBECP Project Loan-Campus DHW	3.000%	1-Feb-31	225,000
SBECP Project Loan-Facilities Lighting Upgr	3.000%	1-Feb-22	97,268
SBECP Project Loan-UM Lighting Ph III	3.000%	1-Feb-31	260,579
SBECP Project Loan-Mechanical Insulation	3.000%	1-Feb-27	145,413
SBECP Project Loan-Mansfield	0.000%	1-Aug-18	458,600
SBECP Project Loan-Law Lighting	0.000%	1-Aug-17	56,318
SBECP Project Loan-UM PARTV	0.000%	1-Aug-18	20,513
SBECP Project Loan-Chemistry Steam Trap	0.000%	1-Aug-15	21,539
SBECP Project Loan-Western Library	3.295%	15-Feb-13	1,597
SBECP Project Loan-Wood-fired Boiler	5.829%	15-Feb-22	727,171
SBECP Project Loan-Library Admin & SUB	3.000%	1-Feb-30	233,803
SBECP Project Loan-IT Woods	3.000%	1-Feb-31	39,498
SBECP Project Loan-UMW Campus Lighting	3.000%	1-Aug-24	127,570
SBECP Project Loan-UMW Upper Gym	0.000%	1-Aug-16	7,209
SBECP Project Loan-UMW Block Hall	0.000%	1-Aug-20	115,330
SBECP Project Loan-UMW IT Metal Bldg	0.000%	1-Aug-31	53,957
SBECP Project Loan-UMH Energy Upgrade	5.402%	30-Jun-26	57,893
SBECP Project Loan-Airport Facility	3.000%	1-Aug-31	365,000
SBECP Project Loan-Donaldson Energy	3.000%	19-Oct-28	400,000
MSTA loan-Research Offices	Variable	30-Jun-61	3,352,397
			15,964,555
Less Current Maturities			1,319,836
Total			$ 14,644,719

Notes to the Consolidated Financial Statements (continued)

The scheduled maturities of the Intercap loans, SBECP loans and MSTA loan are as follows:

Fiscal Year	Principal	Interest	Total Payment
2013	$ 1,319,836	$ 384,758	$ 1,704,594
2014	1,234,225	357,469	1,591,694
2015	1,093,996	302,674	1,396,670
2016	1,052,398	280,352	1,332,749
2017	1,006,513	258,563	1,265,076
2018-2022	4,058,669	1,008,415	5,067,085
2023-2027	2,846,724	594,232	3,440,956
2028-2032	926,244	370,988	1,297,232
2033-2037	312,285	287,715	600,000
2038-2042	353,277	246,723	600,000
2043-2047	399,650	200,350	600,000
2048-2052	452,110	147,890	600,000
2053-2057	511,456	88,544	600,000
2058-2061	397,171	22,828	419,999
Total	$ 15,964,555	$ 4,551,500	$ 20,516,056

NOTE 17 – RETIREMENT PLANS

Full-time employees of the University are members of the Public Employees' Retirement System (PERS), Game Wardens' & Peace Officers' Retirement System (GWPORS), Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993, state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

PERS, GWPORS and TRS

PERS, GWPORS and TRS are statewide, cost-sharing, multiple-employer defined benefit retirement plans. The plans are established under state law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the state in 1945, provides retirement services to substantially all public employees. GWPORS, established in 1963, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state police officers not eligible to join the Sheriffs' Retirement System, Highway Patrol Officers' Retirement System, and Municipal Police Officers' Retirement System. TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

Contribution rates for the plans are required and determined by state law. The contribution rates for 2012 and 2011 expressed as a percentage of covered payrolls were as follows:

	2012			2011		
	Covered Payroll	Employee	Employer	Covered Payroll	Employee	Employer
PERS	$ 47,339,794	6.98%	7.17%	$ 45,547,015	6.90%	7.17%
GWPORS	$ 729,575	10.56%	9.00%	$ 759,378	10.56%	9.00%
TRS	$ 15,189,095	9.03%	9.85%	$ 16,843,932	10.62%	9.85%

Notes to the Consolidated Financial Statements (continued)

The amounts contributed to the plan during years ending June 30, 2012, 2011, and 2010, were equal to the required contribution each year. The amounts contributed were as follows:

	Year ending June 30,		
	2012	2011	2010
PERS			
Employer	$ 3,394,315	$ 3,265,827	$ 3,207,986
Employee	$ 3,303,213	$ 3,142,905	$ 3,079,336
GWPORS			
Employer	$ 65,662	$ 68,344	$ 70,352
Employee	$ 77,043	$ 80,190	$ 82,547
TRS			
Employer	$ 1,495,510	$ 1,658,457	$ 1,795,830
Employee	$ 1,371,066	$ 1,789,608	$ 1,696,659

The plans issue publicly available annual reports that include financial statements and required supplemental information. The reports may be obtained from the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park, Suite 220
Helena, Montana 59620-0131
Phone: (406) 444-3154

Teachers' Retirement Division
P.O. Box 200139
1500 Sixth Avenue
Helena, MT 59620-0139
Phone: (406) 444-3134

ORP

ORP was established in 1988, and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The ORP is a defined-contribution plan. Until July 1, 2003, only faculty and staff with contracts under the authority of the Board of Regents were eligible to participate. The plan was changed, effective July 1, 2003, to allow all staff to participate in the ORP. Contribution rates for the plan are required and determined by state law. The University's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions.

Contributions to ORP (TIAA-CREF) were as follows:

	Year ending June 30,	
	2012	2011
FACULTY		
Covered Payroll	$ 79,937,787	$ 77,727,923
Employer Contributions	$ 4,761,095	$ 4,629,475
Percent of Covered Payroll	5.956%	5.956%
Employee Contributions	$ 5,630,191	$ 5,467,506
Percent of Covered Payroll	7.043%	7.034%
STAFF		
Covered Payroll	$ 9,357,683	$ 9,208,815
Employer Contributions	$ 420,160	$ 413,476
Percent of Covered Payroll	4.490%	4.490%
Employee Contributions	$ 646,820	$ 635,408
Percent of Covered Payroll	6.912%	6.900%

For the years ended June 30, 2012 and 2011, 4.72%, or $3,773,064 and $3,668,758, respectively, was contributed to TRS from ORP faculty employer contributions to amortize past service unfunded liability in accordance with state law. In addition, 2.68%, or $250,786 and $246,796, respectively, was contributed to PERS from ORP staff employer contributions to amortize past service unfunded liability in accordance with state law.

Annual reports that include financial statements and required supplemental information on the plan are available from:

TIAA-CREF
730 Third Avenue
New York, New York 10017-3206
Phone: 1-800-842-2733

NOTE 18 – OTHER POST EMPLOYMENT BENEFITS FOR HEALTH INSURANCE

The University adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* during fiscal year 2008. The primary type of other post employment benefit (OPEB) addressed by GASB 45 is post employment health benefits. OPEB's have generally been accounted for on a pay-as-you-go basis and financial statements have often not recognized their financial effects until the benefits are paid. The standard requires that the cost of postemployment healthcare benefits be accounted for under the accrual basis of accounting, similar to the accounting requirements under GASB 27 for government sponsored pension plans, where the cost of benefits to employees are recognized in periods when the related services are received by the employer.

Plan Description. The University is affiliated with the Montana University System Group Insurance Plan (MUSGIP), an agent multiple-employer health care plan administered by the Office of Commissioner of Higher Education. In accordance with section 2-18-702 of the Montana Code Annotated, the MUSGIP provides optional postemployment health care benefits to eligible University employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the Montana University System (MUS) at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible. Premiums rates established by the Inter-Unit Benefits Committee are approved by the Commissioner of Higher Education. Retiree monthly premium rates range from $556 to $1,051 for medical coverage and decrease when a retiree becomes Medicare eligible. Medicare enrolled retiree premium rates range from $278 to $741. Retirees can also elect optional dental and vision coverage. The MUSGIP does not issue a stand-alone financial report but is reported as an enterprise fund in the State of Montana Comprehensive Annual Financial Report (CAFR) which can be viewed online at http://accounting.mt.gov/cafr/cafr.asp.

Annual OPEB Cost. The University's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that is projected to cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For fiscal year ended June 30, 2012 and 2011, the University's annual OPEB cost (expense), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

	2012	2011
Annual required contribution	$ 5,196,958	$ 8,292,578
Interest on net OPEB obligation	1,413,408	1,017,721
Annual OPEB cost (expense)	6,610,366	9,310,299
Contributions made	-	-
Increase in OPEB obligation	6,610,366	9,310,299
Net OPEB Obligation Beginning Balance	33,256,652	23,946,353
Net OPEB Obligation Ending Balance	$ 39,867,018	$ 33,256,652
Percentage of annual OPEB cost contributed	0.00%	0.00%

Notes to the Consolidated Financial Statements (continued)

The actuarial determination was based on plan information as of July 1, 2011. The Montana University System actuarial valuation is required every two years. At the time of the valuation, the number of active University participants in the MUS health insurance plan was 3,000. The total inactive (retiree and dependent) participants was 934. As of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was $48,159,444, all of which was unfunded and is being amortized as a level dollar amount over an open basis of 30 years. The total amount contributed for active participants to the self insured health insurance plan by the University during fiscal 2012 and 2011 was $26,217,528 and $26,261,365, respectively, on annual covered payroll for the most recent actuarial valuation of $165,497,391. The AAL as a percentage of annual covered payroll was 44.51%. The University does not contribute to the plan for its retirees. Currently, the University is not required to fund the ARC.

Required supplemental information immediately following the notes to the financial statements presents a schedule of funding status and the actuarial assumptions used for the actuarial valuations completed in fiscal 2007, 2009 and 2011.

Actuarial Methods and Assumptions. The actuarial funding method used to determine the cost of the MUSGIP was the projected unit credit funding method. This method's objective is to fund each participant's benefits under the plan as they accrue. The total benefit to which each participant is expected to become entitled at retirement is categorized into units, each associated with a year of past or future credited service.

The following actuarial assumptions were used in addition to marital status at retirement, mortality rates and retirement age:

Actuarial Valuation Date:	**July 1, 2011**
Interest/Discount rate	4.25%
Projected payroll increases	2.50%
Participant Percentage:	
Future retirees assumed to elect coverage at retirement	55.00%
Future eligible spouses of future retirees assumed to elect coverage	60.00%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Actuarially determined amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting progress are based on the substantive plan (the plan as understood by the employer and the plan members) and includes, the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

NOTE 19 – PLEDGED REVENUES

Revenue bonds issued by the University to finance capital asset projects as described in Note 12, are secured by a first lien on the gross and net pledged revenues derived primarily from auxiliary facilities on each of its four campuses. Gross pledged revenues include revenue from housing, food service, student union, recreation and field house facility operations. Net pledged revenues are derived mainly from investment income, student fees, events revenue, continuing education (non-credit) and land grant revenue. Total principal and interest remaining on the debt at June 30, 2012 is $160,199,727 with annual debt service requirements ranging from $11.1 million in 2013 to $998,400 in 2033, the final year of repayment.

A schedule of revenues pledged as security for revenue bonds is presented as follows at June 30, 2012 and 2011:

	2012		2011	
	Revenues Pledged as Security for Debt	Net Similar Revenues	Revenues Pledged as Security for Debt	Net Similar Revenues
Student fees	$ 12,688,369	$ 124,293,893	$ 12,670,151	$ 124,581,298
Sales and services:				
Events revenue	5,903,175		5,168,377	
Continuing education	1,853,599		2,069,287	
Residence life	586,796		523,119	
Student union facilities	526,874		536,998	
Other sources	89,285		67,232	
Total sales and services	**8,959,729**	**16,927,044**	**8,365,013**	**15,841,888**
Residence life	**14,614,458**	**14,619,288**	**14,410,101**	**14,414,725**
Food services	**13,095,714**	**13,126,570**	**12,723,133**	**12,737,142**
Other auxiliary revenues:				
Residence life	439,830		363,731	
Food services	839,934		936,145	
Student union facilities	490,542		531,823	
Student health services	764,043		972,817	
Parking	1,661,573		1,612,962	
Recreation facilities	818,731		839,472	
Bookstore	3,127,279		3,055,794	
Printing services	506,659		361,804	
Field house facilities	235,460		174,026	
Other sources	343,918		127,021	
Total other auxiliary revenues	**9,227,969**	**11,808,596**	**8,975,595**	**11,859,709**
Land grant revenue	**1,771,181**	**1,771,181**	**1,646,236**	**1,646,236**
Investment income	**593,554**	**1,566,772**	**545,274**	**5,214,416**
Total pledged revenues	**$ 60,950,974**	**$ 184,113,344**	**$ 59,335,503**	**$ 186,295,414**

NOTE 20 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, 2-9-101 through 305, MCA, and ARM 2.2.298, require participation of all state agencies in the self-insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self-insurance program includes coverage for tort general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self-insured retentions, by purchasing other commercial coverage through the state's brokers, Alliant Insurance Services and Willis, for excess liability, property, crime, fidelity, boiler and machinery, fine arts, aircraft-liability and hull coverage. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as-needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University has established guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Tort Claims Act of the State of Montana in section, 2-9-102, MCA, "provides that Governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature". Accordingly section, 2-9-305, MCA, requires that the state "provide for the immunization, defense and indemnification of its public officers and employees civilly sued for their actions taken within the course and scope of their employment". The University also has commercial coverage for other risk exposures that are not covered by the State's self-insurance program.

Buildings and contents – are insured for replacement value. For each loss covered by the state's self-insurance program and commercial coverage, the University has a $2,500 per occurrence retention.

Notes to the Consolidated Financial Statements (continued)

General liability and tort claim coverage – include comprehensive general liability, auto liability, personal injury liability, officer's and director's liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University's participation in the state's self-insurance program. Montana Codes Annotated (2-9-108, MCA) limits awards for damages against the state to $750,000 per claim, $1,500,000 per occurrence.

Self-Funded Programs – The University's health care program is self-funded, and is provided through participation in the Montana University System (MUS) Inter-unit Benefits Program. The MUS program is funded on an actuarial basis and the University believes that sufficient reserves exist to pay run-off claims related to prior years, and that the premiums and University contributions are sufficient to pay current and future claims.

Effective July 1, 2003, (for fiscal year 2004), the University's workers' compensation program became self-funded and is provided through membership in the MUS Self Insured Workers' Compensation Program. In fiscal year 2003 the University's workers' compensation coverage was provided for through participation in the state's Compensation Insurance Fund. The MUS self-funded program is funded on an actuarial basis and is administered by a third party, currently Intermountain Claims, Inc.. The MUS program incorporates a self-insured retention of $500,000 per claim and excess commercial coverage to statutory limits. Employer's liability is provided with a $500,000 retention and an excess insurance limit of $1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

NOTE 21 – COMMITMENTS AND CONTINGENCIES

At June 30, 2012, the University had the following outstanding commitments under major capital and maintenance projects:

Project	Budget Authorization	Total Expenditures through June 2012	Funding Source
Main Hall Phase II	5,135,642	3,742,363	A&E
Fine Art Annex	230,000	205,000	A&E/ Institution
MG Bldg HVAC Upgrade	2,131,808	1,942,113	LRBP & Plant Funds
Health Science Bldg Renovation	2,839,683	2,317,724	LRBP & Plant Funds
HPER Phase II	3,551,855	3,520,267	Intercap Loan & other campus funds
ISB 2nd Floor	790,555	723,417	Series J Revenue bonds
Improve LA Bldg Restroom Access	136,861	86,835	Code/DM
Biomass Boiler Repairs	110,000	105,114	DEQ
Mansfield Library Cooling	1,073,200	1,035,709	DEQ, Utility & Code/DM
Campus Energy Improvs I	243,000	80,714	DEQ & Energy Related/DM
Bio Research Energy Upgrade	260,000	259,706	LRBP & Plant Funds, DEQ
Skaggs Energy Upgrade	2,067,000	1,636,014	DEQ, Utility & Energy Related/DM
Education Bldg Energy Upgrade	330,000	329,802	DEQ, Utility & Energy Related/DM
Campus Lighting Energy Improvements	810,000	381,531	LRBP, DEQ, Utility & Energy Related/DM
Campus Lighting Energy Improves/Fire Alarms	648,000	73,548	LRBP, DEQ, Utility & Energy Related/DM
Lighting Improvements Phase II	308,000	307,083	DEQ
Campus Steam Traps	180,666	152,997	DEQ
Campus Energy Improvs II	200,000	13	Energy Related/DM
Music Bldg Upgrades	817,000	816,349	DEQ, Utility & Energy Related/DM
Fine Arts Energy Upgrade	1,138,888	1,127,320	DEQ, Utility & Energy Related/DM

Notes to the Consolidated Financial Statements (continued)

Project	Budget Authorization	Total Expenditures through June 2012	Funding Source
Replace Elevators Aber/Jesse H	800,000	799,728	Plant
Dining Services HVAC	950,000	927,538	Auxiliary Funds
La Peak Remodel to Country Sto	300,000	270,252	Auxiliary Funds
Aber Hall Room Renovations	149,500	127,742	Auxiliary Funds
UC Service Elevator Replacements	550,000	444,614	Auxiliary Funds
COT Modular Acquisition & Site Work	294,000	280,303	Plant
McGill Bsmt Daycare Renovation	161,000	149,546	Plant, UM Funding
ARRA Skaggs CLNP Consolidation	240,000	176,993	Grant
Biological Station Master Plan	550,000	528,022	Donations
Main Hall Network Wiring 2010	145,000	142,875	Plant
Gilkey Executive Education Ctr	7,500,000	418,238	Donations
Steam Tunnel Auxiliary	458,600	441,184	2005 Series J Revenue Bonds
ARRA-Skaggs Basement Addition	200,600	175,354	Grant, ARRA Funds
Service Entry Backflow Devices/ARRA	1,328,844	738,000	ARRA Funds
COT Futures Park	135,000	95,000	Research & Development
	$ 36,764,702	$ 24,559,009	

Operating leases – The University has commitments under non-cancelable operating leases as follows:

Payable during the year ending June 30,	Total
2013	$ 351,257
2014	134,127
2015	106,970
2016	22,350
2017	22,350
	$ 637,055

The University is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position.

In the normal course of operations, the University receives grants and other forms of reimbursement from various federal and state agencies. These funds are subject to review and audit by the cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income may be considered unrelated business income by the Internal Revenue Service (IRS). The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

NOTE 22– RELATED PARTIES

The University of Montana is a component unit of the State of Montana. The University's consolidated financial statements and the combined financial statements of its component units include only the activities, funds and accounts of the University and the component units. Private nonprofit organizations with relations to the University include The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the University. For the years ended June 30, 2012 and 2011, $86,444 and $66,817, respectively, was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, the University provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(C) 3 corporation in fiscal year 2001 as a result of an agreement between the University and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local "start-up" companies. The corporation's board of directors is comprised equally of members appointed by MAEDF and the University.

The University contributed $1.75 million in matching funds to MonTECH in conjunction with a grant awarded by U.S Economic Development Administration in fiscal year 2011. The total of the $3.50 million from the matching funds and the grant is being used to undertake a renovation of MonTEC.

NOTE 23 – ACCOUNTING FOR COMPONENT UNITS

The entities included as component units in the financial statements are nonprofit, tax exempt organizations operating exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. Although the University does not control the timing or amount of receipts from these entities, the majority of the revenues or income that the entities hold and invest is restricted to the activities of the University by donors. The entities included as component units in the financial statements are The University of Montana Foundation, The Montana Tech Foundation, The University of Montana – Western Foundation and The Montana Grizzly Scholarship Association.

For the fiscal years ended June 30, 2012 and 2011, the following was transferred to the University for scholarships, academic or institutional support or capital expenses by the University foundations: $8,719,297 and $9,917,891, respectively with The University of Montana Foundation (406-243-2593), $2,885,155 and $2,763,797, respectively, with the Montana Tech Foundation (406-496-4532); and $499,231 and $322,344 respectively, with The University of Montana-Western Foundation (406-683-7305). In addition, $1,360,911 and $1,320,212 was transferred from the Montana Grizzly Scholarship Association (406-243-6485) for the fiscal years ended June 30, 2012 and 2011, respectively. For the fiscal years ended June 30, 2012 and 2011, the University foundations also expended $4.3 million and $6.2 million, respectively, directly to third parties in support of the University. In exchange, the University provides the foundations with office space and an annually contracted fee, and the association with office space, staff and some related office expenses. For the fiscal years ended June 30, 2012 and 2011, the University provided $494,005 and $495,840, respectively, to its Foundations, which included payments for contracted services, capital campaign support and a lease payment of $1 for a lake lodge used by The University of Montana-Missoula for conferences and other events.

Condensed financial information for each of the University's component units is presented below. The information for The University of Montana – Western Foundation is as of December 31, for the years presented. The financial information for all the other component units is as of June 30, for the years presented.

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Notes to the Consolidated Financial Statements (continued)

STATEMENT OF FINANCIAL POSITION
June 30, 2012 and December 31, 2011

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
			ASSETS			
Cash and investments	$ 159,401,299	$ 30,163,799	$ 4,363,944	$ 3,318,352	$ (1,457,582)	$195,789,812
Other receivables, net of allowances	6,509,991	1,446,528	101,411	34,750	-	8,092,680
Fixed assets, net of depreciation	3,850,105	1,491,317	35,027	4,853	-	5,381,302
Other assets	1,771,559	101,190	-	33,252	-	1,906,001
	$ 171,532,954	$ 33,202,834	$ 4,500,382	$ 3,391,207	$ (1,457,582)	$211,169,795
			LIABILITIES AND NET ASSETS			
Current liabilities associated with operations	$ 431,413	$ 147,921	$ 2,003	$ 321,442	$ -	$ 902,779
Note payable – other	-	-	40,000	-	-	40,000
Long-term liabilities – other	248,055	63,263	-	-	-	311,318
Liabilities to external beneficiaries	2,837,425	-	-	-	-	2,837,425
Custodial funds	20,509,718	-	-	-	(1,457,582)	19,052,136
	24,026,611	211,184	42,003	321,442	(1,457,582)	23,143,658
Net assets – unrestricted	5,143,513	2,090,412	277,727	1,153,661	-	8,665,313
Net assets – restricted	142,362,830	30,901,238	4,180,652	1,916,104	-	179,360,824
	147,506,343	32,991,650	4,458,379	3,069,765	-	188,026,137
	$ 171,532,954	$ 33,202,834	$ 4,500,382	$ 3,391,207	$ (1,457,582)	$211,169,795

* For the year ended June 30, 2012. **For the year ended December 31, 2011.

STATEMENT OF FINANCIAL POSITION
June 30, 2011 and December 31, 2010

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Elimination	Total
			ASSETS			
Cash and investments	$160,637,614	$ 31,632,665	$ 4,362,876	$ 3,096,729	$ (1,474,584)	$198,255,300
Other receivables, net of allowances	7,044,878	2,624,085	-	53,666	-	9,722,629
Fixed assets, net of depreciation	3,857,132	216,469	42,227	3,842	-	4,119,670
Other assets	823,642	67	-	23,996	-	847,705
	$172,363,266	$ 34,473,286	$ 4,405,103	$ 3,178,233	$ (1,474,584)	$212,945,304
			LIABILITIES AND NET ASSETS			
Current liabilities associated with operations	$ 395,550	$ 88,011	$ 6,970	$ 32,126	$ -	$ 522,657
Note payable – other	108,525	-	40,000	321,972	-	470,497
Long-term liabilities – other	241,466	55,675	-	-	-	297,141
Liabilities to external beneficiaries	2,914,112	-	-	-	-	2,914,112
Custodial funds	21,409,363	-	-	-	(1,474,584)	19,934,779
	25,069,016	143,686	46,970	354,098	(1,474,584)	24,139,186
Net assets – unrestricted	6,444,330	1,933,629	266,213	1,305,775	-	9,949,947
Net assets – restricted	140,849,920	32,395,971	4,091,920	1,518,360	-	178,856,171
	147,294,250	34,329,600	4,358,133	2,824,135	-	188,806,118
	$172,363,266	$ 34,473,286	$ 4,405,103	$ 3,178,233	$ (1,474,584)	$212,945,304

* For the year ended June 30, 2011. **For the year ended December 31, 2010.

Notes to the Consolidated Financial Statements (continued)

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012 and December 31, 2011

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
REVENUES					
Contributions	$ 13,747,813	$ 3,660,984	$ 842,619	$ 1,651,342	$ 19,902,758
Investment income and unrealized gain(loss) of investments	(1,486,944)	(1,397,352)	(34,431)	(9,038)	(2,927,765)
Administrative fees	479,272	-	-	-	479,272
Contract for services	425,000	69,005	29,611	411,074	934,690
Other income	1,788,980	(11,009)	30,550	-	1,808,521
	$ 14,954,121	$ 2,321,628	$ 868,349	$ 2,053,378	$ 20,197,476
EXPENSES					
Program services	$ 9,470,846	$ 2,885,156	$ 499,231	$ 1,360,911	$ 14,216,144
Supporting services	4,902,301	774,422	268,872	446,837	6,392,432
	$ 14,373,147	$ 3,659,578	$ 768,103	$ 1,807,748	$ 20,608,576
Change in net assets before non-operating items	$ 580,974	$ (1,337,950)	$ 100,246	$ 245,630	$ (411,100)
NONOPERATING EXPENSES					
beneficiaries	(368,881)	-	-	-	(368,881)
Change in net assets	212,093	(1,337,950)	100,246	245,630	(779,981)
Net assets, beginning of fiscal year	$147,294,250	$ 34,329,600	$ 4,358,133	$ 2,824,135	$188,806,118
Net assets, end of fiscal year	$147,506,343	$ 32,991,650	$ 4,458,379	$ 3,069,765	$188,026,137

* For the year ended June 30, 2012. **For the year ended December 31, 2011.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011 and December 31, 2010

	University of Montana Foundation *	Montana Tech Foundation *	University of Montana – Western Foundation **	Montana Grizzly Scholarship Association*	Total
REVENUES					
Contributions	$ 8,354,388	$ 7,730,342	$ 613,770	$ 1,738,463	$ 18,436,963
Investment income and unrealized gain(loss) of investments	24,104,647	5,171,173	270,980	257,285	29,804,085
Administrative fees	437,477	-	-	-	437,477
Contract for services	425,000	194,906	27,884	422,184	1,069,974
Gain/(Loss) on sale of assets	-	(591)	-	-	(591)
Other income	1,673,696	4,450	18,850	-	1,696,996
	$ 34,995,208	$ 13,100,280	$ 931,484	$ 2,417,932	$ 51,444,904
EXPENSES					
Program services	$ 12,307,826	$ 2,763,797	$ 322,344	$ 1,320,212	$ 16,714,179
Supporting services	4,542,411	739,044	322,305	526,940	6,130,700
	$ 16,850,237	$ 3,502,841	$ 644,649	$ 1,847,152	$ 22,844,879
Change in net assets before non-operating items	$ 18,144,971	$ 9,597,439	$ 286,835	$ 570,780	$ 28,600,025
NONOPERATING EXPENSES					
beneficiaries	(339,151)	-	-	-	(339,151)
Change in net assets	17,805,820	9,597,439	286,835	570,780	28,260,874
Net assets, beginning of fiscal year	$129,488,430	$ 24,732,161	$ 4,071,298	$ 2,253,355	$160,545,244
Net assets, end of fiscal year	$147,294,250	$ 34,329,600	$ 4,358,133	$ 2,824,135	$188,806,118

* For the year ended June 30, 2011. **For the year ended December 31, 2010.

Notes to the Consolidated Financial Statements (continued)

The following table shows the total investments held by the component units. The investments for The University of Montana – Western Foundation are as of December 31, 2011 and 2010. The financial information for all the other component units is as of June 30, 2012 and 2011.

	Fair Market Value	
	2012	2011
Investments held by component units:		
Stocks and bonds	$ 142,229,833	$ 153,564,210
Money market and certificates of	2,095,194	763,019
Hedge funds	16,827,567	16,801,232
Alternative investments	22,872,817	15,538,715
Real property	472,546	472,546
Other	1,738,513	1,878,250
	$ 186,236,470	$ 189,017,972

Notes to the Consolidated Financial Statements (continued)

NOTE 24 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2012, were as follows:

	Natural Classification							
Functional Classification:	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	Total
Instruction	$ 98,024,634	$ 2,389,174	$ 9,196,219	$ 28,705	$ 446,621	$ -	$ -	$ 110,085,352
Research	33,708,407	761,126	14,060,918	26,485	231,878	-	-	48,788,814
Public service	12,511,438	329,095	5,046,835	8,680	136,780	-	-	18,032,829
Academic support	21,819,084	627,890	9,451,552	600	267,228	-	-	32,166,355
Student services	17,939,396	602,325	9,172,979	11,043	397,989	-	-	28,123,732
Institutional support	20,260,387	597,610	7,394,444	42	811,347	-	-	29,063,829
Operation and maintenance of plant	13,311,096	486,490	10,118,991	6,179,618	260,008	-	-	30,356,204
Scholarships and fellowships	-	-	-	-	-	29,551,301	-	29,551,301
Auxiliary enterprises	23,982,285	816,655	13,943,203	3,514,462	232,617	-	-	42,489,223
Depreciation	-	-	-	-	-	-	22,373,703	22,373,703
	$ 241,556,727	$ 6,610,365	$ 78,385,141	$ 9,769,635	$ 2,784,469	$ 29,551,301	$ 22,373,703	$ 391,031,341

**Other Post Employment Benefits*

The University's operating expenses by natural and functional classifications for the year ended June 30, 2011, were as follows:

	Natural Classification							
Functional Classification:	Compensation & benefits	OPEB*	Supplies & other services	Utilities	Communication	Scholarships	Depreciation	Total
Instruction	$ 94,978,259	$ 3,297,285	$ 9,054,991	$ 25,076	$ 447,712	$ -	$ -	$ 107,803,323
Research	36,372,264	1,205,211	14,890,052	35,436	213,939	-	-	52,716,902
Public service	11,255,826	445,950	4,868,169	11,504	125,338	-	-	16,706,787
Academic support	23,078,569	858,950	9,019,201	1,030	238,934	-	-	33,196,684
Student services	16,983,990	818,313	8,237,124	22,531	354,882	-	-	26,416,840
Institutional support	19,976,446	855,409	6,864,006	-	630,390	-	-	28,326,251
Operation and maintenance of plant	13,062,584	684,620	9,084,117	7,234,423	154,606	-	-	30,220,350
Scholarships and fellowships	-	-	-	-	-	30,097,552	-	30,097,552
Auxiliary enterprises	23,591,593	1,144,561	13,473,413	3,855,839	231,061	-	-	42,296,467
Depreciation	-	-	-	-	-	-	22,019,856	22,019,856
	$ 239,299,531	$ 9,310,299	$ 75,491,073	$ 11,185,839	$ 2,396,862	$ 30,097,552	$ 22,019,856	$ 389,801,012

**Other Post Employment Benefits*

The University of Montana
Required Supplementary Information

Schedule of Funding Status for Other Post Retirement Benefits for Health Insurance

The funded status of the plan as of the actuarial valuations dated July 1, 2007, 2009 and 2011 were as follows:

	2007	2009	2011
Actuarial accrued liability (AAL)	$ 78,187,418	$ 80,475,030	$ 48,159,444
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	$ 78,187,418	$ 80,475,030	$ 48,159,444
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%	0.00%
Covered payroll (active plan members)	$ 122,541,536	$ 167,395,949	$ 165,497,391
UAAL as a percentage of covered payroll	63.80%	48.07%	44.51%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Such events include assumptions about future employment, mortality rates, and healthcare cost trends. Actuarially determined amounts are subject to continual review and revision as actual results are compared with past expectations and new estimates are made about the future.

The actuarial assumptions included in the valuations, in addition to marital status at retirement, mortality rates and retirement age, were as follows:

Actuarial Valuation Date:	July 1, 2007	July 1, 2009	July 1, 2011
Interest/Discount rate	4.25%	4.25%	4.25%
Projected payroll increases	3.00%	2.50%	2.50%
Participant Percentage:			
Future retirees assumed to elect coverage at retirement	45.00%	55.00%	55.00%
Future eligible spouses of future retirees assumed to elect coverage	59.00%	60.00%	60.00%

The University of Montana
Supplemental Information - All Campuses
(Unaudited)

DESCRIPTION	Fall 2011	Fall 2010	Fall 2009	Fall 2008	Fall 2007	Fall 2006
Enrollment (Headcount) [1]	21,530	21,371	20,248	18,979	18,417	18,383

	FY2012	FY2011	FY2010	FY2009	FY2008	FY2007
Enrollment (FTE) [2]						
Colleges of Technology	3,338	3,304	3,018	2,560	2,358	2,121
Undergraduate	13,386	13,785	13,181	12,565	12,223	12,167
Graduate	1,985	1,950	1,900	1,805	1,837	1,777
	18,709	19,039	18,099	16,930	16,418	16,065
Enrollment (FTE) [2]						
In-State students	14,431	14,749	14,090	13,066	12,557	12,354
Out-of-State students	3,171	3,141	2,958	2,905	2,927	2,732
Western Undergraduate Exchange	1,107	1,149	1,051	959	934	979
	18,709	19,039	18,099	16,930	16,418	16,065

	FY2012	FY2011	FY2010	FY2009	FY2008	FY2007
Employees (FTE) - All Funds [2]						
Contract Faculty	1,133	1,112	1,073	1,044	1,033	1,003
Contract Admin & Professional	561	543	515	502	470	455
Classified	1,363	1,349	1,319	1,311	1,317	1,294
GTA/GRA	186	188	178	174	164	170
Part Time and Other	579	583	558	530	553	399
	3,822	3,774	3,643	3,562	3,538	3,321

	School Year Ended					
	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008 [4]	6/30/2007
Degrees Granted [3]						
Certificate	144	182	149	234	189	163
Associate	668	555	522	455	429	481
Undergraduate	2,413	2,535	2,292	2,177	2,151	2,074
Graduate	828	802	723	751	741	705
	4,053	4,074	3,686	3,617	3,510	3,423

[1] *Source: MUS Data Warehouse*
[2] *Source: CHE Operating Reports 2007-2012*
[3] *Source: IPEDS Completion Reports 2007-2012*
[4] *Restated*

University Response

The University of Montana

The University of Montana

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The University of Montana
Missoula, Montana 59812-3324
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December 5, 2012

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LEGISLATIVE AUDIT DIV.

Tori Hunthausen
Legislative Audit Division
P. O. Box 201705
Helena, MT 59620-1705

Dear Ms. Hunthausen,

On behalf of The University of Montana, I want to extend our appreciation to you and your staff for your work on The University of Montana's Financial Statement Audit for the fiscal year ending June 30, 2012. Your office was professional and supportive during this process. As you are aware, the University treats accountability and stewardship of all funds with the utmost seriousness.

Again, thank you and your staff for your assistance and attentive efforts.

Sincerely,

Royce C Engstrom

Royce C. Engstrom
President
The University of Montana

RCE/ks
Englet546

Cc: Clay Christian, Commissioner of Higher Education